GWG Holdings, Inc.
Form PRER14C
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of

the Securities Exchange Act of 1934

Check the appropriate box:

Preliminary Information Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
Definitive Information Statement

GWG HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

GWG HOLDINGS, INC.

NOTICE OF ACTION BY WRITTEN CONSENT

TO THE STOCKHOLDERS OF GWG HOLDINGS, INC.:

This Notice and the accompanying Information Statement are being furnished to the stockholders of GWG Holdings, Inc., a Delaware corporation (the "Company," "GWG," "we," or "us"), in connection with action taken by written consent by the holders of a majority of the issued and outstanding shares of common stock of the Company to approve, as required by NASDAQ Rule 5635(a) and (b), the issuance of up to 29.1 million shares of Company common stock, at a deemed purchase price per share of $10.00, on the terms and subject to the conditions set forth in the Master Exchange Agreement, dated as of January 12, 2018 (as amended to the date hereof, the "Master Agreement"), among the Company, GWG Life, LLC (the Company's wholly owned subsidiary), The Beneficient Company Group, L.P., a Delaware limited partnership ("Beneficient"), certain related trusts (the "Seller Trusts") (such issuance of our common stock, together with the other transactions contemplated under the Master Agreement, being hereinafter referred to as the "Transaction").

The approval of the issuance of the shares for purposes of NASDAQ Rule 5635(a) and (b) was taken by written consent pursuant to Section 228 of the Delaware General Corporation Law (the "DGCL") and Section 2.15 of our bylaws, which provides that any action that may be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. This Information Statement is being furnished to our stockholders of record as of November 5, 2018, referred to as the record date, in accordance with Section 14(c) of the Securities Exchange Act of 1934, as amended, and the rules promulgated by the Securities and Exchange Commission thereunder, solely for the purpose of informing our stockholders of the action taken by the written consent.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Your vote or consent is not requested or required to approve these matters. The accompanying Information Statement is provided solely for your information.

We are mailing this Notice and the accompanying Information Statement to holders of our common stock on or about [ ], 2018.

Sincerely,

/s/ [ ]

Jon R. Sabes
Chairman and Chief Executive Officer

[ ], 2018

TABLE OF CONTENTS

GWG HOLDINGS, INC.
220 South Sixth Street, Suite 1200
Minneapolis, MN 55402

INFORMATION STATEMENT

GENERAL INFORMATION

Approval of Share Issuance

GWG Holdings, Inc., a Delaware corporation (the “Company,” “GWG,” “we,” or “us”) is sending you this information statement solely for purposes of informing our stockholders of record as of November 5, 2018, which we refer to as the record date, in the manner required by Regulation 14(c) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Delaware General Corporation Law (the “DGCL”), of the action taken by written consent by the holders of a majority of the issued and outstanding shares of common stock of the Company to approve, as required by NASDAQ Rule 5635(a) and (b), the issuance of up to 29.1 million shares of Company common stock, at a deemed purchase price per share of $10.00, on the terms and subject to the conditions set forth in the Master Exchange Agreement, dated as of January 12, 2018 (as amended to the date hereof, the “Master Agreement”), among the Company, GWG Life, LLC (the Company’s wholly owned subsidiary), The Beneficient Company Group, L.P., a Delaware limited partnership (“Beneficient”), and certain related trusts (the “Seller Trusts”) (such issuance of our common stock, together with the other transactions contemplated under the Master Agreement, being hereinafter referred to as the “Transaction”).

NASDAQ Rule 5635(a) requires stockholder approval prior to the issuance of securities in connection with the acquisition of the stock or assets of another company if the number of shares to be issued is equal to or exceeds 20% of the outstanding shares of the Company, and NASDAQ Rule 5635(b) requires stockholder approval prior to any issuance of securities when the issuance will result in a change of control of the listed company, which NASDAQ generally deems to occur when, as a result of the issuance, an investor owns, or has the right to acquire, 20% or more of the outstanding shares of common stock or voting power and such ownership would be the single largest ownership position in the listed company.

In the case of the Master Agreement, we may issue up to 29.1 million shares of our common stock to the Seller Trusts, each of which are expected to have the same trustees or a group of related trustees. If issued, these shares would represent approximately 64% of our issued and outstanding common stock after giving effect to the Transaction and assuming that all shares issuable in the Transaction are issued. GWG currently expects that the Seller Trusts will receive 29.1 million shares.

We are subject to NASDAQ Rule 5635(a) and (b) since our common stock is listed and trades on the NASDAQ Capital Market. Accordingly, NASDAQ Rule 5635(a) and (b) requires us to obtain stockholder approval of the issuance of our common shares in the Transaction.

1

The approval of the issuance of the shares by written consent requires the approval of the holders of outstanding common stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. As of the record date, there were 5,813,555 shares of our common stock issued and outstanding.

By a written consent dated June 14, 2018, the holders of a majority of the Company's issued and outstanding common stock, Jon R. Sabes, Chairman and Chief Executive Officer of the Company, and Steven F. Sabes, approved the issuance of the shares of the Company's common stock pursuant to the Master Agreement for purposes of NASDAQ Rule 5635(a) and (b). Accordingly, the written consent executed by the Messrs. Jon and Steven Sabes is sufficient to approve the issuance of the shares pursuant to the Master Agreement, and no further stockholder action is required. Pursuant to Rule 14c-2(b) promulgated under the Exchange Act, such action may not be effected until at least 20 calendar days following the mailing of this Information Statement to our common stockholders. This Information Statement is first being mailed on or about [ ], 2018 to the Company's common stockholders of record as of the record date.

The shares will be issued pursuant to available exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws.

Notice Pursuant to the Delaware General Corporation Law

Pursuant to Section 228(e) of the DGCL, we are required to provide prompt notice of the taking of a corporate action by written consent to common stockholders who have not consented in writing to such action. This Information Statement serves as the notice required by Section 228(e) of the DGCL.

OVERVIEW OF THE PROPOSED TRANSACTION

Description of the Master Agreement

Exchange and Purchase and Sale of Securities; Commercial Loan

On January 12, 2018, we entered into the Master Agreement, pursuant to which we have agreed to issue an aggregate of up to 29.1 million shares of Company common stock as partial consideration in exchange for our receipt of outstanding common units of Beneficient we will receive from the Seller Trusts. Our common stock will be issued in the exchange to the Seller Trusts at a deemed purchase price of $10.00 per share.

On August 10, 2018, the Company, Beneficient, MHT Financial SPV, L.L.C., a Delaware limited liability company ("MHT SPV"), and the Seller Trusts entered into a Third Amendment to Master Exchange Agreement. Pursuant to the Third Amendment, the parties agreed to consummate the transactions contemplated by the Master Agreement in two closings. The Third Amendment also generally deleted MHT SPV as a party to the Master Agreement.

On the first closing date, which took place on August 10, 2018 (the “Initial Transfer Date”),

in consideration for GWG and GWG Life entering into the Master Exchange Agreement and consummating the transactions contemplated thereby, Beneficient, as borrower, entered into a commercial loan agreement (the “Commercial Loan Agreement) with GWG Life, as lender, in a principal amount of $200 million as more fully described below;

Beneficient delivered to GWG a promissory note (the “Exchangeable Note”) in the principal amount of $162,911,379 as more fully described below;

Beneficient purchased 5,000,000 shares of GWG’s Series B Convertible Preferred Stock, par value $0.001 per share and having a stated value of $10 per share (the “Convertible Preferred Stock”), for cash consideration of $50,000,000, as more fully described below;

the Seller Trusts delivered to GWG 4,032,349 common units of Beneficient;

GWG issued to the Seller Trusts Seller Trust L Bonds due 2023 (the “Seller Trust L Bonds”) in an aggregate principal amount of $403,234,866, as more fully described below;

GWG and the Seller Trusts entered into a registration rights agreement (the “Seller Trust L Bonds Registration Rights Agreement”) with respect to the Seller Trust L Bonds received by the Seller Trusts, as more fully described below; and

GWG and Beneficient entered into a registration rights agreement (the “MLP Registration Rights Agreement”) with respect to the Beneficient common units received and to be received by GWG, as more fully described below.

Under the Master Exchange Agreement, at the final closing (the “Final Closing” and the date on which the final closing occurs, the “Final Closing Date”):

the Seller Trusts and Beneficient will transfer to GWG an aggregate of 40,485,230 common units of Beneficient, inclusive of 16.3 million units in full satisfaction of the Exchangeable Note;

Beneficient will issue to GWG an amount of securities or other instruments, containing the same rights, preferences and privileges as the NPC-A limited partnership interests of Beneficient Company Holdings, L.P., an affiliate of Beneficient (“Beneficient Holdings”), equivalent to seven percent (7%) of the total NPC-A limited partnership interests attributable to certain of Beneficient Holdings’ founders; and

GWG will deliver to the Seller Trusts up to 29.1 million shares of GWG common stock.

Immediately following the Final Closing, the Convertible Preferred Stock will convert into 5,000,000 shares of GWG common stock at $10.00 per share.

On the Final Closing Date, GWG and the Seller Trusts will also enter into a registration rights agreement (the "GWG Stock Registration Rights Agreement") with respect to the shares of GWG common stock owned by the Seller Trusts, an orderly marketing agreement (the "Orderly Marketing Agreement") and a stockholders agreement (the "Stockholders Agreement"), each as described below.

Commercial Loan Agreement

On August 10, 2018, in connection with the Initial Transfer Date described above and in consideration for GWG entering into the Master Exchange Agreement and consummating the transactions contemplated thereby at the Initial Transfer Date, GWG Life, as lender, and Beneficient, as borrower, entered into the Commercial Loan Agreement.

The principal amount under the Commercial Loan Agreement is due on August 9, 2023; provided that (a) in the event Beneficient completes at least one public offering of its common units raising at least $50 million which on its own or together with any other public offering of Beneficient's common units results in Beneficient raising at least $100 million, then the maturity date will be extended to August 9, 2028; and (b) in the event that Beneficient (i) completes at least one public offering of its common units raising at least $50 million which on its own or together with any other public offering of Beneficient's common units results in Beneficient raising at least $100 million and (ii) at least 75% of Beneficient Holding's total outstanding NPC-B limited partnership interests have been converted to Beneficient common units, then the maturity date will be extended to August 9, 2033.

Repayment of the balance under the Commercial Loan Agreement is subordinated in right of payment to any of Beneficient's commercial bank debt and to Beneficient's obligations which may arise in connection with its NPC-B Unit limited partnership interests. Beneficient's obligations under the Commercial Loan Agreement are unsecured.

The principal amount under the Commercial Loan Agreement bears interest at 5.00% per year; provided that the accrued interest from the Initial Transfer Date to the Final Closing Date will be added to the principal balance under the Commercial Loan Agreement. From and after the Final Closing Date, one-half of the interest, or 2.50% per year, will be due and payable monthly in cash, and (ii) one-half of the interest, or 2.50% per year, will accrue and compound annually on each anniversary date of the Final Closing Date and become due and payable in full in cash on the maturity date.

The Commercial Loan Agreement contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens and indebtedness by Beneficient, fundamental changes to its business and transactions with affiliates. The Commercial Loan Agreement also contains customary affirmative covenants, including, but not limited to, preservation of corporate existence, compliance with applicable law, payment of taxes, notice of material events, financial reporting and keeping of proper books of record and account.

The Commercial Loan Agreement includes customary events of default, including, but not limited to, nonpayment of principal or interest, failure to comply with covenants, failure to pay other indebtedness when due, cross-acceleration to other debt, material adverse effects, events of bankruptcy and insolvency, and unsatisfied judgments.

Exchangeable Note

On August 10, 2018, in connection with the Initial Transfer Date and in consideration for GWG entering into the Master Exchange Agreement and consummating the transactions contemplated thereby, Beneficient issued to GWG the Exchangeable Note in the principal amount of $162,911,379. The Exchangeable Note accrues interest at a rate of 12.40% per year, compounded annually. Interest is payable in cash on the earlier to occur of the maturity date or the Final Closing Date; provided that Beneficient may, at its option, add to the outstanding principal balance under the Commercial Loan Agreement the accrued interest in lieu of payment in cash of such accrued interest thereon at the Final Closing Date (or, if earlier, the maturity date of the Exchangeable Note). In the event the Final Closing Date occurs prior to the maturity date, Beneficient may, at its option, pay the accrued interest on the Exchangeable Note in the form of a promissory note providing for a term of up to two years and cash interest payable semi-annually at the rate of 5.00% per year. In the event the Final Closing Date occurs on or prior to the maturity date, the principal amount of the Exchangeable Note is payable in Beneficient common units at a price equal to $10.00 per common unit. The principal amount of the Exchangeable Note is payable in cash on August 9, 2023.

Supplemental Indenture

On August 10, 2018, in connection with the Initial Transfer Date described above, GWG, GWG Life and Bank of Utah, as trustee (the “Trustee”), entered into a Supplemental Indenture to the Amended and Restated Indenture dated as of October 23, 2017 between GWG, GWG Life and the Trustee, as amended. The Company entered into the Supplemental Indenture to add and change certain provisions of the Amended and Restated Indenture necessary to provide for the issuance of a new class of securities titled “Seller Trust L Bonds”. The maturity date of the Seller Trust L Bonds is August 9, 2023. The Seller Trust L Bonds bear interest at 7.50% per year.

So long as the Final Closing has not occurred, the redemption price payable in respect of a redemption effected by GWG after January 31, 2019 may be paid, at GWG’s option, in the form of cash, a pro rata portion of (i) the outstanding principal amount and accrued and unpaid interest under the Commercial Loan Agreement, (ii) the outstanding principal amount and accrued and unpaid interest under the Exchangeable Note and (iii) Beneficient common units, or a combination of cash and such property. After the second anniversary of the Final Closing, the holders of the Seller Trust L Bonds will have the right to cause GWG to repurchase, in whole but not in part, the Seller Trust L Bonds held by such holder. The repurchase may be paid, at GWG’s option, in the form of cash, a pro rata portion of (i) the outstanding principal amount and accrued and unpaid interest under the Commercial Loan Agreement, (ii) the outstanding principal amount and accrued and unpaid interest under the Exchangeable Note and (iii) Beneficient common units, or a combination of cash and such property.

The Seller Trust L Bonds are senior secured obligations of GWG, ranking junior only to all senior debt of GWG, pari passu in right of payment and in respect of collateral with all “L Bonds” of GWG, and senior in right of payment to all subordinated indebtedness of GWG. Payments under the Seller Trust L Bonds are guaranteed by GWG Life.

The Seller Trust L Bonds are secured by the assets of GWG, primarily consisting of its investment in its subsidiaries, cash proceeds it receives from life insurance assets of its subsidiaries, and all other cash and investments it holds in various accounts. Substantially all of GWG’s life insurance assets are held in its subsidiary DLP IV. The Seller Trust L Bonds’ security interest is structurally subordinate to the security interest in favor of GWG’s senior secured lender, together with any future senior secured lenders of GWG. The assets of GWG Life, including proceeds it receives as distributions from DLP IV and derived from the insurance policies owned by DLP IV, are collateral for GWG Life’s guarantee of the repayment of principal and interest on the Seller Trust L Bonds. The Seller Trust L Bonds are also secured by a pledge of a majority of GWG’s outstanding common stock beneficially held by its largest stockholders.

Seller Trust L Bonds Registration Rights Agreement

On August 10, 2018, in connection with the Initial Transfer Date, GWG and the Seller Trusts entered into the Seller Trust L Bonds Registration Rights Agreement providing each of the Seller Trusts with certain customary registration rights with respect to the Seller Trust L Bonds owned by them. Pursuant to the Seller Trust L Bonds Registration Rights Agreement, the Seller Trusts are entitled to certain customary demand registration, shelf takedown and piggyback registration rights with respect to the Seller Trust L Bonds, subject to certain customary limitations (including with respect to minimum offering size and maximum number of demands and underwritten shelf takedowns within certain periods). Subject to certain limited but customary exceptions, GWG will generally pay all registration expenses incurred in connection with the Seller Trust L Bonds Registration Rights Agreement.

MLP Registration Rights Agreement

On August 10, 2018, in connection with the Initial Transfer Date described above in this Item 1.01, GWG and Beneficient entered into the MLP Registration Rights Agreement providing GWG with certain customary registration rights with respect to the Beneficient common units received and to be received by GWG pursuant to the Master Exchange Agreement. Pursuant to the MLP Registration Rights Agreement, GWG is entitled to certain customary demand registration, shelf takedown and piggyback registration rights with respect to the Beneficient common units, subject to certain customary limitations (including with respect to minimum offering size and maximum number of demands and underwritten shelf takedowns within certain periods). Subject to certain limited but customary exceptions, Beneficient will generally pay all registration expenses incurred in connection with the MLP Registration Rights Agreement.

For information regarding Beneficient, see "—Consequences of Our Ownership in Beneficient After the Transaction" below. A description of our Seller Trust L Bonds is set forth in Annex D to this Information Statement, which description is supplemented by the description set forth above under "—Supplemental Indenture."

Additional Information Regarding the Transaction

In considering the Transaction, the Company and the Board of Directors considered and discussed information and analysis provided by its legal and financial advisors. The Board determined that the Transaction will provide significant financial and strategic benefits, including:

A significant increase in the Company's common equity;

A significant reduction in the Company's leverage ratio (as measured by debt divided by total equity);

New and significant opportunities to lower the Company's cost of funds, an important driver of shareholder value;

Diversification of the Company’s revenue and cash flow sources resulting in more consistent earnings; and

Increased public float and liquidity in the Company’s common stock, thereby increasing our common stockholder base and potentially attracting additional equity analyst coverage, both of which are important factors in maximizing share valuation.

Historical financial information for the Company, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, are included as Annex A and B to this Information Statement. In addition, certain pro forma financial information to reflect the Transaction is included as Annex C to this Information Statement and certain historical financial information for Beneficient is included as Annex F to this Information Statement.

The Transaction creates opportunities for the Company and Beneficient to pursue strategies that are mutually advantageous, including the opportunity to leverage the Company’s knowledge, experience and significant infrastructure in, and the marketing, sales and servicing of, the independent broker dealer market and the related market for illiquid alternative investments – a prime target market for the origination of Beneficient’s suite of liquidity products. Additionally, the Company has significant expertise in, and infrastructure dedicated to, the sourcing, pricing and management of life insurance policies acquired in the secondary market. These so-called life settlements are among the asset classes that Beneficient may seek to gain exposure to through its various strategies.

After considering these primary factors, management and the Board of Directors has determined that the Transaction is in the best interests of the Company.

The exact number of shares of common stock of GWG to be delivered at the closing of the Transaction will be determined approximately five business days prior to closing. The Master Agreement provides, however, that the aggregate value of the consideration (consisting of the GWG common stock (including shares issuable upon conversion of the Convertible Preferred Stock and the Seller Trust L Bonds) provided to the Seller Trusts in the Transaction will not be less than $550 million nor more than $800 million.

In the event GWG secures a valuation opinion from a nationally recognized valuation firm to the effect that the common units of Beneficient will have, as of the Final Closing Date, a fair value of less than $9.00 per common unit and a second valuation opinion obtained by GWG and Beneficient ascribes a value to the common units of less than $9.00 per unit, Beneficient will provide, through arrangements with its existing security holders so as to preclude dilution, such additional number of common units to GWG at the Final Closing of the Transaction as shall be necessary to provide an aggregate value to GWG equal to the value the common units would have had at a fair value of $10.00 per unit.

6

The Final Closing as contemplated by the Master Agreement is expected to close in the fourth quarter of 2018, subject to the satisfaction of customary closing conditions set forth in the agreement.

In the Master Agreement, each of the parties has made certain customary and negotiated representations and warranties. Our representations and warranties to Beneficient and the Seller Trusts include, among other things, representations and warranties with respect to our capitalization, tax matters, our business, required consents, our filings with the Securities and Exchange Commission (the "SEC"), our internal controls and disclosure controls, and the issuance of our securities. The representations and warranties made to us by Beneficient and the Seller Trusts include, among other things, representations and warranties about their respective capitalization, tax matters, businesses, required consents, and the status of the Seller Trusts as "accredited investors" and their investment intent.

The representations and warranties in the Master Agreement survive until the latest of (i) the resale (as contemplated by the Orderly Marketing Agreement (as defined below)) of the common stock we issue under the Master Agreement to the Seller Trusts, (ii) the satisfaction or refinancing of the L Bonds we issue under the Master Agreement to the Seller Trusts, and (iii) the full satisfaction by Beneficient of all its obligations under the Commercial Loan Agreement.

GWG, on the one hand, and any of Beneficient or the Seller Trusts, on the other hand, may terminate the Master Agreement prior to the closing in certain circumstances, including, among other things, (i) by mutual written consent, and (ii) in connection with another party's breach in a material respect of its representations, warranties, or agreements contained in the Master Agreement that is either not curable or, if curable, has not been cured after at least 30 days prior written notice. In addition, the Seller Trusts may terminate the Master Agreement, prior to the closing, at any time so long as they pay to us a $4 million termination fee concurrently with or prior to such termination.

The Master Agreement is included as Annex E to this Information Statement.

Non-Solicitation Covenant

In order to provide additional assurance to Beneficient and the Seller Trusts under the Master Agreement, until the Final Closing or the termination of the Master Agreement, we have agreed to not:

solicit, initiate, encourage, or facilitate the making, submission or announcement of any "Acquisition Proposal," as defined below, or "Acquisition Inquiry," as defined below, relating to us or any of our subsidiaries or otherwise solicit, initiate, encourage or facilitate any action that could reasonably be expected to lead to an Acquisition Proposal or

Acquisition Inquiry relating to us or any of our subsidiaries;

request or receive any non-public information from any person or provide any non-public information to any person in connection with an Acquisition Proposal or Acquisition Inquiry relating to us or any of our subsidiaries;

engage in discussions or negotiations with any person with respect to any Acquisition Proposal relating to us or any of our subsidiaries;

approve, endorse or recommend any Acquisition Proposal or Acquisition Inquiry relating to us or any of our subsidiaries; or

enter into any letter of intent or similar document or any agreement contemplating or providing for any Acquisition Transaction or Acquisition Proposal relating to us or any of our subsidiaries.

7

In the event that we receive an unsolicited bona fide written Acquisition Inquiry or Acquisition Proposal, we, our subsidiaries and their respective representatives may nonetheless take any of the above-described actions only if our Board of Directors concludes in good faith (after consultation with its outside counsel, and with respect to financial matters, its financial advisors) that failure to take any of the such actions would be inconsistent with its fiduciary duties under applicable law.

The Master Agreement defines several terms that are critical to understanding our obligations under the non-solicitation covenant. Specifically, the Master Agreement contains definitions for the following terms:

“Acquisition Inquiry” means an inquiry, indication of interest or request for information that could reasonably be expected to lead to an “Acquisition Proposal,” as defined below.

“Acquisition Proposal” means any offer, proposal, inquiry or indication of interest relating to any “Acquisition Transaction,” as defined below.

“Acquisition Transaction” means any transaction or series of transactions (other than the transactions contemplated by the Master Agreement) with any person involving: (i) any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction; or (ii) any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets of such person.

Listing of Beneficient Common Units

In the Master Agreement, Beneficient has agreed to use its commercial best efforts to pursue and obtain a listing of its common units on a nationally recognized stock exchange (a “listing”) on or prior to the 40-month anniversary of the Initial Transfer Date. If Beneficient does not (i) within 24 months after the Initial Transfer Date, file a registration statement with the SEC in connection with a listing, or (ii) secure a listing on or prior to the 40-month anniversary of the Initial Transfer Date, then the Master Agreement provides that we may, at our election, cause Beneficient to adopt a strategy to redeem all of the common units of Beneficient then held by us as of the date of our election. If we were to make an election for the redemption of our common units in Beneficient, Beneficient would be obligated to repurchase our common units at a redemption price equal to the greater of $11.00 per unit or the book value per unit as of the date of redemption.

In adopting a strategy to redeem the common units of Beneficient held by us, Beneficient will be obligated to use no less than 75% of its distributable cash flow (calculated quarterly as cash flows derived from operations, plus cash inflows from financings, less mandatory tax distributions) to satisfy our redemption election together with all other redemption elections, including any redemption elections that may be made by the holders of other interests in Beneficient or interests convertible into interests of Beneficient. In this regard, we are aware that certain “NPC-C Unit Accounts” (which are interests in Beneficient Holdings) also have the right to elect redemption by Beneficient in the event a listing does not occur. If we were to elect redemption, then Beneficient will be obligated under the Master Agreement to use a percentage of its distributable cash flow (as defined above), each quarter, equal to the percentage that the common units held by us on the date of our election bears to the total number of outstanding common units (on an undiluted basis) as of the date of our election, until such time as all of our common units shall have been redeemed.

To help ensure that the value of our redemption right will not be diluted by future issuances of interests entitled to similar redemption rights, the Master Agreement provides that after the Initial Transfer Date until the effective date of a listing, if any, none of Beneficient, its subsidiaries or affiliates will, without our prior written consent, issue any additional class of securities with rights of redemption, whether optional or mandatory, ranking senior in priority to the common units we acquire in the Transaction, unless and until all of the common units we acquire in the Transaction are redeemed under the terms of the Master Agreement, are otherwise sold or transferred, or unless we affirmatively elect in writing not to elect redemption.

Certain Restrictions on Beneficient

The Master Agreement provides that, until such time as Beneficient has satisfied all of its obligations to us under the Commercial Loan Agreement, Beneficient will not, without our prior written consent (which we may grant, withhold or condition in our sole discretion), incur additional indebtedness for borrowed money in excess of 55% of Beneficient's net asset value; provided, that any bank debt of Beneficient may not exceed at the time of incurrence, and after giving effect to the incurrence thereof on a pro forma basis, the lesser of (i) 40% of Beneficient's net asset value and (ii) $200,000,000 (provided that the limitation of this clause (ii) shall not apply if Beneficient shall have completed a qualified public offering or no NPC-B Unit Accounts are outstanding). For purposes of this covenant, each of (i) the bank debt of Beneficient, (ii) the outstanding balance of "NPC-B Unit Accounts" of Beneficient Holdings, and (iii) any guarantees furnished by Beneficient for the debt or obligations of another person will be counted as indebtedness for borrowed money.

Our Certificate of Incorporation and Bylaws

The Master Agreement does not require any amendments or changes to our Certificate of Incorporation or corporate bylaws, and we do not anticipate effecting any changes, or seeking the approval of our common stockholders for any such changes, in connection with the Transaction.

Other Agreements

The Master Agreement contemplates a number of other agreements that will be executed and delivered between the date of the Master Agreement and Final Closing Date, or at the Final Closing, in furtherance of the Transaction. None of these other agreements have been executed and delivered. Generally, the Master Agreement requires the proposed parties to these other agreements to use some level of effort to arrive at terms reasonably acceptable to the parties, or to enter into these other agreements in customary but negotiated form or substance reasonably acceptable to the parties. In all cases, however, the Master Agreement itself provides some of the material terms and conditions that will be included in these other agreements. The captions below summarize certain of these other agreements by identifying their parties, their purpose, the manner in which they are to be reached, the time at which they are to be delivered, and the material terms and conditions that the Master Agreement specifies for these other agreements.

GWG Stock Registration Rights Agreement

In connection with the Final Closing, and as contemplated in the Master Agreement, we will enter into a registration rights agreement granting resale registration rights to the Seller Trusts (and certain transferees) with respect to the shares of common stock we issue at the Final Closing (the "GWG Resale Registration"). The GWG Resale Registration is intended to provide the parties with the legal right to sell the securities they receive in the Transaction in compliance with the Securities Act of 1933.

Although the Master Agreement provides that the GWG Resale Registration must be in customary and negotiated form reasonably acceptable to the parties, the Master Agreement nonetheless describes certain material terms of the GWG Resale Registration. In particular, the GWG Resale Registration will provide the Seller Trusts (and certain transferees) with:

demand registration rights affording the Seller Trusts and their assigns the right to obligate us to register the resale of all of the shares of our common stock issued to the Seller Trusts under the Master Agreement, subject, however, to customary limitations; and

piggyback registration rights affording the Seller Trusts and their assigns the right to include for resale, on any registration statement we file, any shares of our common stock issued under the Master Agreement and not otherwise included on any demand registration effected pursuant to the rights described immediately above, subject, however, to customary cutback provisions.

The registration rights to be granted under the GWG Resale Registration will include certain customary conditions and limitations, including the right of underwriters to limit the number of shares to be included in a registration, the right of the issuer to delay or withdraw a registration statement under certain circumstances, and the right to limit the number of shares to be included based on SEC rules, guidance or staff comment. Subject to certain limited but customary exceptions, we expect that GWG will generally pay all registration expenses incurred in connection with a GWG Resale Registration.

Notwithstanding the above-described registration rights granted to the Seller Trusts, the ability of the Seller Trusts to resell the shares of our common stock they receive in the Transaction under the GWG Resale Registration will be limited by the contractual provisions of the Orderly Marketing Agreement (as defined below).

Orderly Marketing Agreement

The Master Agreement obligates us and the Seller Trusts to negotiate in good faith the terms of an agreement (the "Orderly Marketing Agreement") with one or more nationally recognized investment banks, and enter into that agreement at the Final Closing, for the orderly marketing and resale of the shares of our common stock that we issue to the Seller Trusts under the Master Agreement. The purpose of the Orderly Marketing Agreement is to manage the timing and amount of our common shares that are publicly resold in the market since the number of shares of our common stock to be issued under the Master Agreement will substantially increase the total number of our issued and outstanding shares.

Although the Master Agreement provides that the Orderly Marketing Agreement must be in final negotiated form reasonably acceptable to the parties, the Master Agreement nonetheless describes certain material terms of the Orderly Marketing Agreement. In particular, the Orderly Marketing Agreement will obligate the Seller Trusts, severally, to:

agree with us (and with Beneficient) that no shares of our common stock they receive in the Transaction, including shares a Seller Trust may distribute to the beneficiaries of that trust, will be transferred or sold other than in accordance with such orderly marketing arrangements contained in the Orderly Marketing Agreement; and

agree not to assign or distribute any of the shares of our common stock they receive in the Transaction without conditioning that assignment or distribution upon the agreement of the assignee or distributee to comply with provisions of the Orderly Marketing Agreement, including their agreement not to transfer or sell any of common stock other than in accordance with the orderly marketing arrangements contained in the Orderly Marketing Agreement.

The Master Agreement also contains the covenants of GWG, on the one hand, and Beneficient, on the other hand, to use their commercially reasonable efforts to secure the assistance of their respective senior executives to assist the investment bank or banks involved in marketing and resale activities. This assistance may include participating in roadshows from time to time as reasonably requested by the other party. In this regard, it is possible that the parties may determine to include more specific and detailed provisions of this sort in the Orderly Marketing Agreement, in which case we would expect that Beneficient would also become a party to the Orderly Marketing Agreement.

Stockholders' Agreement

The Master Agreement contemplates and requires the delivery at closing of a stockholders' agreement (the "Stockholders' Agreement") among the Seller Trusts and GWG. The purpose of the Stockholders' Agreement is to limit the voting power of the Seller Trusts and the control they would otherwise be entitled to exercise over GWG. The Seller Trusts have agreed to these concepts and provisions since their main interest in engaging in the Transaction is to obtain liquidity for their common units of Beneficient, which they will obtain by consummating the Transaction and selling to us their common units of Beneficient (which securities are presently not liquid in that they are not listed on any exchange and do not trade) in exchange for our issuance to them of our common stock (which is more liquid in that our common stock is listed on the NASDAQ Capital Market) and L Bonds as described herein. To this end, the Master Agreement provides that the Stockholders' Agreement will contain the following provisions, all of which will bind the Seller Trusts and their respective transferees:

until the Seller Trusts own, in the aggregate, voting securities representing less than 10% of the total voting power, all voting securities of GWG over which they have voting control, with respect to all matters including without limitation the election and removal of directors, regardless of whether voted at a regular or special meeting or pursuant to a written consent, will be voted solely in proportion with the votes cast by all other holders of voting securities of GWG on any matter put before them;

until the earlier of (i) one year from the Final Closing of the Transaction and (ii) the termination of the Orderly Marketing Agreement, no Seller Trust nor its assignees and transferees (other than pursuant to a registered public offering) or their respective affiliates will, without the prior written consent of GWG's Board of Directors, directly or indirectly:

o acquire, offer to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, any securities or direct or indirect rights to acquire any voting securities of GWG or any of its subsidiaries other than pursuant to the Master Agreement;

o seek or propose to influence or control the management, Board of Directors, or policies of GWG, make or participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are used in applicable SEC rules) to vote any voting securities of GWG or any of its subsidiaries, or seek to advise or influence any other person with respect to the voting of any voting securities of GWG or any of its subsidiaries;

o submit a proposal for or offer of (with or without conditions) any merger, recapitalization, reorganization, business combination, or other extraordinary transaction involving GWG, any of its subsidiaries, or any of their respective securities or assets or, except as required by law, make any public announcement with respect to the foregoing;

o

enter into any discussions, negotiations, arrangements, or understandings with any other person with respect to any of the foregoing, or otherwise form, join, engage in discussions relating to the formation of, or participate in a "group," within the meaning of Section 13(d)(3) of the Exchange Act, in connection with any of the foregoing; or

o advise, assist, or encourage any other person in connection with any of the foregoing.

The Master Agreement provides that the Stockholders' Agreement, containing the above-described provisions together with any other customary and negotiated provisions, shall remain in effect until the termination of the Orderly Marketing Agreement.

11

Consequences of Our Ownership in Beneficient After the Transaction

Beneficient is a limited partnership organized in the State of Delaware. As such, its business and affairs are managed by its general partner. The general partner of Beneficient is Beneficient Management, LLC, a Delaware limited liability company ("Beneficient Management"). Although Beneficient Management is the general partner of Beneficient, and holds a "general partner interest in Beneficient, that general partner interest has no associated economic rights.

Upon consummation of the Transaction, we will become the owner of up to 89% of the issued and outstanding common units in Beneficient. Under applicable state law and the partnership agreement of Beneficient, GWG will have no right to participate in the control of the business of Beneficient:

Beneficient Management, as Beneficient's general partner, manages all of Beneficient's operations and activities. Beneficient's general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out Beneficient's purposes and to conduct its business. Owners of common units of Beneficient have only limited voting rights relating to certain matters and, therefore, will have limited or no ability to influence Beneficient's management's decisions regarding its business.

Any person or group (other than Beneficient's general partner and its affiliates, or a direct or subsequently approved transferee of the general partner or its affiliates or such person or group has the prior approval of the board of directors of the general partner of Beneficient) who acquires, in the aggregate, beneficial ownership of 20% or more of Beneficient's common units (including GWG), will lose voting rights on all of its common units and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of limited partners, calculating required votes, determining the presence of a quorum or for other similar purposes.

Prior to a listing, if any, of Beneficient's common units on a national stock exchange or, in lieu thereof, quotation of the common units in an automated quotation system, the executive committee of the board of directors of the general partner of Beneficient will be entitled to cast all of the votes that the limited partners would otherwise be entitled to cast, and no limited partner, in its capacity as such, will be permitted to vote in respect of its common units.

Beneficient's partnership agreement eliminates the fiduciary duties that might otherwise be owed by Beneficient Management, as general partner of Beneficient, under Delaware law and replaces them with the duties expressly set forth in such agreement. Accordingly, Beneficient Management is permitted to manage Beneficient in accordance with the contractual standards set forth in its partnership agreement. Beneficient's partnership agreement provides that, when the general partner is permitted or required to make a decision in its "discretion" or pursuant to a provision not subject to an express standard of "good faith," in making such decision, the general partner has no duty to give any consideration to any interest of or factors affecting Beneficient or any other person. If a decision under Beneficient's partnership agreement is subject to an express standard of "good faith," such decision will not constitute a breach of the agreement if the decision is approved by (i) a majority of the members of the conflicts committee of the board of directors of the general partner of Beneficient, (ii) holders of a majority of the voting power of the Beneficient's common units entitled to vote (excluding voting common units owned by the general partner and its affiliates), or (iii) the general partner acting without a subjective belief that such decision was adverse to the interests of Beneficient. Potential conflicts of interest may arise among the general partner and its affiliates, on the one hand, and Beneficient, on the other hand, and the general partner may be able to favor its own interest to the detriment of Beneficient and the holders of the common units.

Our ownership in Beneficient's issued and outstanding common units immediately after the consummation of the Transaction does not include (i) an aggregate of approximately 125,657,883 limited partner interests that may be issued upon the conversion of outstanding securities issued by Beneficient or Beneficient Holdings, all or substantially all of which are beneficially held, directly or indirectly, by the founders of Beneficient or its management members, or (ii) additional limited partner interests that may be issued after the closing of the Transaction. Importantly, the general partner of Beneficient has discretion to cause Beneficient to issue additional limited partner interests from time to time, and Beneficient's partnership agreement contains no meaningful restrictions on this authority. Moreover, the Beneficient organizational structure permits the future issuance of additional securities that can, upon certain circumstances or at the discretion of their holders, be converted into additional limited partner interests in Beneficient.

Informational Rights

In the Master Agreement, we negotiated for certain express informational rights, beyond those provided in the Beneficient's partnership agreement and those provided by the Delaware Revised Uniform Limited Partnership Act, relating to Beneficient:

Until such time as the common units of Beneficient are listed on a nationally recognized stock exchange, Beneficient will permit us and our representatives, on no less than five business days' prior written notice, to visit and inspect any of Beneficient's properties, including its books of account and other records (and make copies thereof and take extracts therefrom), and to discuss its affairs, finances and accounts with Beneficient's officers and its independent public accountants, all at such reasonable times and as often as we may reasonably request, provided that our rights of access must be exercised in a manner that does not unreasonably interfere with Beneficient's operations; and

On a timely basis, Beneficient will provide us with all financial and tax information we reasonably request in order to comply with our SEC reporting obligations and prepare and file our tax returns.

The above-described informational rights are subject to certain limited exceptions relating to information that is subject to attorney-client privilege or the provision or disclosure of which is prohibited by applicable law.

In addition, until the closing of the Transaction, each of Beneficient and the Seller Trusts have agreed in the Master Agreement to afford us and our representatives reasonable access to the books, records, financial statements, information, agreements, officers, and other items of the assets, liabilities, and business of Beneficient and the Seller Trusts, and otherwise provide such assistance as may be reasonably requested by us or our representatives in order that we and our representatives may have a full opportunity to make such investigation and evaluation as we may desire to make of Beneficient, the Seller Trusts, their respective businesses and the transactions contemplated by the Master Agreement.

Information on The Beneficient Company Group, L.P.

The Beneficient Company Group, L.P. (together with its subsidiaries, "BEN"), is a privately-held company organized as a Delaware limited partnership, the general partner of which is Beneficient Management, L.L.C., a Delaware limited liability company. Subject to receipt of its regulatory trust charters from the State of Texas, BEN intends to register its common units with the SEC in the future and to apply for listing on a national stock exchange. If so registered and listed, BEN would be considered a publicly traded partnership for IRS purposes. There can be no assurance as to the timing or effectiveness, if any, of the proposed SEC registration and stock exchange listing of the common units.

Upon receipt of regulatory charters, BEN plans to provide to mid-to-high net worth individuals (i.e., individuals having a net worth of between $5 million and $30 million):

Trust services and related liquidity products and loans (collectively, “trust services and liquidity products”) for the alternative assets and illiquid investment funds those individuals may own; and

A variety of other financial services, including custody and clearing of alternative assets, fund and trust administration, retirement funds and insurance services for covering risks attendant to owning or managing alternative assets.

BEN intends to offer its trust services and liquidity products through its U.S.-based subsidiaries, including trust companies for which BEN has applied to charter in Texas; and intends to offer its insurance services through its Bermuda regulated insurance companies.

In addition, BEN is developing a third business segment, referred to as financial technologies and online platforms, designed to offer clients online financial technologies and platforms for direct access to BEN's liquidity products and services as well as specialized reporting tools. To expand this segment, BEN acquired ACE Portal, Inc. in early 2018. ACE Portal, which was previously financed in part by the New York Stock Exchange, will further enable BEN to develop and operate a centralized platform for accredited and qualified investors to access the private markets for private placements of equity, debt and fund interests marketed by SEC-registered broker-dealers.

BEN's General Partner and Board of Directors

As a limited partnership, Beneficient is controlled by its general partner, Beneficient Management. The general partner is controlled by, and exclusive and complete authority to manage the operations and affairs of the general partner are granted to, the general partner's board of directors (the "BEN Board"). The BEN Board is currently comprised of the following eight directors:

Michelle Caruso-Cabrera - Formerly CNBC's chief international correspondent and co-anchor of "Power Lunch." Previously, reporter and special projects producer for Univision and reporter with WTSP-TV in St. Petersburg, Florida.

- ***David H. de Weese -*** General Partner at Paul Capital, Chairman of the Board of Capacitor Sciences, Inc., and past President and CEO of Siga Technologies, Cygnus Therapeutic and Machine Intelligence. Mr. de Weese has extensive expertise in credit evaluation and investing.

- ***Richard W. Fisher*** - Past President of the Federal Reserve Bank of Dallas and past member of the Fed's Open Market Committee. Founder of Fisher Capital Management after leaving Brown Brothers Harriman & Co. in 1987. Presently Senior Adviser to Barclays PLC, and a Director of AT&T, PepsiCo and Tenet Healthcare.

Brad K. Heppner – Chairman and Chief Executive Officer of BEN. Founder and former owner of The Crossroads Group (private equity fund of funds advisor) which was sold to Lehman Brothers, now Neuberger Berman, and founder/former owner of Capital Analytics (alternative asset administration company) now owned by Mitsubishi Union Financial Group.

- ***Thomas O. Hicks*** - Founder and Chairman of Hicks Holdings, L.L.C., private equity industry pioneer and founder of Hicks, Muse, Tate and Furst, which raised over $12 billion in funds. His funds have invested billions of dollars of equity in businesses in the United States, Europe, and Latin America.

Thomas M. Hoenig - Former Vice Chairman of the Federal Deposit Insurance Corporation; former President and CEO of the Federal Reserve Bank of Kansas City; former member of the Federal Open Market Committee of the

Federal Reserve System; former Chairman and Executive Committee member of the International A.

Bruce W. Schnitzer - Founder and Chairman of Wand Partners, a private equity firm specialized in insurance and other specialty financial services, past President and CEO of Marsh, Inc. and past Chief Financial Officer of Marsh & McLennan Companies, Inc.

- ***Sheldon I. Stein*** - President of Southern Glazer's Wine and Spirits and past Vice Chairman and Head of Southwest Investment Banking for Bank of America, Merrill Lynch. Previously Senior Managing Director and leader of Bear Stearns' Southwest Investment Banking Group for over 20 years.

Billie I. Williamson - Director of Pentair plc, Cushman & Wakefield plc., and Kraton Corporation. During the past five years, Ms. Williamson served on the board of directors of CSRA Inc., Janus Capital Group, ITT Exelis Inc. and Annie's Incorporated. Served in various roles at Ernst & Young LLP ("EY") from 1974 to 1993 and 1998 to 2011, most recently as Senior Global Client Service Partner.

- ***Bruce Zimmerman -*** Past CEO and Chief Investment Officer of The University of Texas Investment Management Company and the former Global Head of Pension Investments for Citigroup. Mr. Zimmerman has 30 years of investment and financial services experience with particular expertise in capital markets and portfolio risk management.

As noted above, our holding in BEN will not afford us any voting rights or other rights to influence the management or control of the company.

SHARE OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND DIRECTORS

In General

The tables below sets forth information known to us regarding the beneficial ownership of our common stock as of November 5, 2018, for:

- each person we believe beneficially holds more than 5% of our outstanding common shares (based solely on our review of SEC filings);
- each of our directors;
- each of our "named executive officers" as identified in the summary compensation table contained in our proxy statement filed with the SEC on April 11, 2018; and
- all of our directors and named executive officers as a group.

The number of shares beneficially owned by a person includes shares issuable under options held by that person and that are currently exercisable or that become exercisable within 60 days of November 5, 2018. Percentage calculations assume, for each person and group, that all shares that may be acquired by such person or group pursuant to options currently exercisable or that become exercisable within 60 days of November 5, 2018 are outstanding for the purpose of computing the "Percentage of Common Stock Owned" by such person or group. Nevertheless, shares of common stock that are issuable upon exercise of presently unexercised options are not deemed to be outstanding for purposes of calculating the "Percentage of Common Stock Owned" by any other person or any other group.

Except as otherwise indicated in the table or its footnotes, the persons in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

As of November 5, 2018, we had 5,980,124 shares of common stock issued and outstanding.

Beneficial Ownership Prior to the Transaction

Name	Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
Jon R. Sabes[(1)]	2,431,620	39.0	%
Steven F. Sabes[(2)]	2,228,454	37.2	%
William B. Acheson[(3)]	162,483	2.7	%
Jeffrey L. McGregor[(4)]	70,000	1.2	%
Shawn R. Gensch[(5)]	54,000	*	
David H. Abramson[(6)]	21,960	*	
Mark E. Schwarzmann[(7)]	16,800	*	
All current directors and officers as a group	4,985,317	77.5	%

* less than one percent.

(1) Mr. Sabes is our Chief Executive Officer and a director of the Company. Shares reflected in the table include 1,229,546 shares held individually, 169,671 shares held by Jon Sabes 1992 Trust No.1, a trust of which Mr. Sabes is the beneficiary, 168,801 shares held by Jon Sabes 6.08.1992 Trust, a trust of which Mr. Sabes is a beneficiary, 241,631 shares held by Jon Sabes 1982 Trust, a trust of which Mr. Sabes is a beneficiary, and 163,737 shares held by Jon Sabes 1976 Trust, a trust of which Mr. Sabes is a beneficiary. Also included are 102,192 shares held by Mr. Sabes' immediate family members. The trustees of each of the trusts are Robert W. Sabes, Steve F. Sabes and Ross A. Sabes. The number of shares also includes 256,042 stock options currently exercisable or exercisable within 60 days granted pursuant to stock option agreements. Figures also include 100,000 shares held by Insurance Strategies Fund, LLC, a Delaware limited liability company over whose securities each of Jon R. and Steven F. Sabes exercise voting and dispositive control. Jon R. and Steve F. Sabes disclaim beneficial ownership over the shares held by Insurance Strategies Fund, LLC except to the extent of their pecuniary interest in such shares.

(2) Mr. Sabes is our Executive Vice President of Originations and Servicing, Secretary and a director of the Company. Shares reflected in the table include 1,052,739 shares held individually and 1,072,382 shares held by SFS Holdings, LLC, a limited liability company of which Mr. Sabes is manager. The number of shares also includes 3,333 stock options currently exercisable or exercisable within 60 days granted pursuant to stock option agreements. Figures also includes 100,000 shares held by Insurance Strategies Fund, LLC, a Delaware limited liability company over whose securities each of Jon R. and Steven F. Sabes exercise voting and dispositive control. Jon R. and Steve F. Sabes disclaim beneficial ownership over the shares held by Insurance Strategies Fund, LLC except to the extent of their pecuniary interest in such shares.

(3) Mr. Acheson is our Chief Financial Officer. Shares reflected in the table include 64,304 shares held individually. The number of shares also includes 48,751 of vested stock options currently exercisable and 49,428 of restricted stock units currently vested or vesting within 60 days granted pursuant to our 2013 Stock Incentive Plan.

(4) Mr. McGregor is a director of the Company. Shares reflected in the table include 70,000 of stock options vested or vesting within 60 days, granted pursuant to our 2013 Stock Incentive Plan.

(5) Mr. Gensch is a director of the Company. Shares reflected in the table include 54,000 of stock options vested or vesting within 60 days, granted pursuant to our 2013 Stock Incentive Plan.

(6) Mr. Abramson is a director of the Company. Shares reflected in the table include 14,960 shares held individually. The number of shares also includes 7,000 of stock options vested or vesting within 60 days, granted pursuant to our 2013 Stock Incentive Plan.

(7) Mr. Schwarzmann is a director of the Company. Shares reflected in the table include 16,800 of vested stock options vested or vesting within 60 days, granted pursuant to our 2013 Stock Incentive Plan.

Beneficial Ownership After the Transaction

The table below provides beneficial ownership information as of November 5, 2018 and assuming the Final Closing of the Transaction and the issuance by GWG to the Seller Trusts of the maximum of 29.1 million shares of our common stock in accordance with the terms of the Master Agreement. The actual number of shares to be issued to the Seller Trusts will be determined approximately five business days prior to closing.

Name	Shares Beneficially Owned	Percentage of Shares Beneficially Owned

Seller Trusts[1]	29,100,000	83.0	%
Jon R. Sabes	2,431,620	6.9	%
Steven F. Sabes	2,228,454	6.4	%
William B. Acheson	162,483	*	
Jeffrey L. McGregor	70,000	*	
Shawn R. Gensch	54,000	*	
David H. Abramson	21,960	*	
Mark E. Schwarzmann	16,800	*	
All current directors and officers as a group	4,985,317	14.0	%

* less than one percent.

(1) The Seller Trusts are a group of individual common law trusts expected to receive shares of GWG common stock in the Transaction. The trustee of each of the Seller Trusts is Delaware Trust Company. The trust advisors of each trust are two unrelated individuals, Jeffrey S. Hinkle and Murray T. Holland, who have sole decision-making authority with respect to each trust. The beneficiary of each of the Seller Trusts is MHT Financial, LLC. The members of MHT Financial, LLC are Shawn T. Terry, Mike McGill and Murray T. Holland. The names of the various trusts comprising the Seller Trusts are as follows: The LT-1 Exchange Trust, The LT-2 Exchange Trust, The LT-3 Exchange Trust, The LT-4 Exchange Trust, The LT-5 Exchange Trust, The LT-6 Exchange Trust, The LT-7 Exchange Trust, The LT-8 Exchange Trust, The LT-9 Exchange Trust, The LT-12 Exchange Trust, The LT-14 Exchange Trust, The LT-15 Exchange Trust, The LT-16 Exchange Trust, The LT-17 Exchange Trust, The LT-18 Exchange Trust, The LT-19 Exchange Trust, The LT-20 Exchange Trust, The LT-21 Exchange Trust, The LT-22 Exchange Trust, The LT-23 Exchange Trust, The LT-24 Exchange Trust, The LT-25 Exchange Trust and The LT-26 Exchange Trust. Additional trusts are expected to participate in the Transaction up to the maximum amount of shares to be issued; however, no individual Seller Trust is expected to hold more than 10% of our common stock following the consummation of the Transaction.

OTHER BUSINESS

Householding of Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our Information Statement may have been sent to multiple stockholders in each household unless otherwise instructed by such stockholders. We will deliver promptly a separate copy of the Information Statement to any common stockholder upon written or oral request to our Corporate Secretary, at GWG Holdings, Inc., 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402, telephone: (612) 746-1944. Any stockholder wishing to receive separate copies of our proxy statement or annual report to stockholders in the future, or any stockholder who is receiving multiple copies and would like to receive only one copy per household, should contact the stockholder's bank, broker, or other nominee record holder, or the stockholder may contact us at the above address and phone number.

Costs

We will make arrangements with brokerage firms and other custodians, nominees and fiduciaries who are record holders of our common stock for the forwarding of this Information Statement to the beneficial owners of our common stock. We will reimburse these brokers, custodians, nominees and fiduciaries for the reasonable out-of-pocket expenses they incur in connection with the forwarding of the Information Statement.

Annex A

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with the consolidated financial statements and accompanying notes and the information contained in other sections of this report. This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Subject to completion of the pending Exchange Transaction contemplated by the Master Exchange Agreement with Beneficient, among others, we intend to account for our acquisition of common units of Beneficient under the equity method of accounting. However, this discussion and analysis does not take into account the potential impact that such pending Exchange Transaction may have on our future financial condition and the results of our future obligations.

Risk Relating to Forward-Looking Statements

This report contains forward-looking statements that reflect our current expectations and projections about future events. Actual results could differ materially from those described in these forward-looking statements.

The words "believe," "could," "possibly," "probably," "anticipate," "estimate," "project," "expect," "may," "will," "should," " "plan," "expect," or "consider" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from such statements.

Such risks and uncertainties include, but are not limited to:

changes in the secondary market for life insurance;

changes resulting from the evolution of our business model and strategy with respect to the life insurance industry;

our limited operating history;

the valuation of assets reflected on our financial statements;

the reliability of assumptions underlying our actuarial models, including our life expectancy estimates;

our reliance on debt financing and continued access to the capital markets;

our history of operating losses;

risks relating to the validity and enforceability of the life insurance policies we purchase;

risks relating to our ability to license and effectively apply technologies to improve and expand the scope of our business;

our reliance on information provided and obtained by third parties;

federal, state and FINRA regulatory matters;

competition in the secondary market of life insurance;

the relative illiquidity of life insurance policies;

our ability to satisfy our debt obligations if we were to sell our entire portfolio of life insurance policies;

life insurance company credit exposure;

cost-of-insurance (premium) increases on our life insurance policies;

general economic outlook, including prevailing interest rates;

performance of our investments in life insurance policies;

financing requirements;

risks associated with the merchant cash advance business;

risks associated with our attempts to commercialize our M-Panel technology;

risks associated with our ability to protect our intellectual property rights;

litigation risks;

restrictive covenants contained in borrowing agreements; and

our ability to make cash distributions in satisfaction of dividend obligations and redemption requests.

We caution you that the foregoing list of factors is not exhaustive. Forward-looking statements are only estimates and predictions, or statements of current intent. Actual results, outcomes or actions that we ultimately undertake, could differ materially from those anticipated in the forward-looking statements due to risks, uncertainties or actual events differing from the assumptions underlying these statements.

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. This means that an "emerging growth company" can make an election to delay the adoption of certain accounting standards until those standards would apply to private companies. We are an emerging growth company and have elected to delay our adoption of new or revised accounting standards and, as a result, we may not comply with new or revised accounting standards at the same time as other public reporting companies that are not "emerging growth companies." This exemption will apply for a period of five years following our first sale of common equity securities under an effective registration statement (which will occur in September 2019) or until we no longer qualify as an "emerging growth company" as defined under the JOBS Act, whichever is earlier.

Overview

We are a financial services company committed to disrupting and transforming the life insurance industry and related industries. We built our business by creating opportunities for consumers to obtain significantly more value for their life insurance policies in a secondary market as compared to the traditional options offered by the insurance industry. We are enhancing and extending these activities through innovation in our products and services, business processes, financing strategies, and advanced epigenetic technologies. At the same time, we are creating opportunities for investors to receive income and capital appreciation from our investment activities in the life insurance and related industries.

Critical Accounting Policies

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with the GAAP requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our judgments, estimates, and assumptions on historical experience and on various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates. We evaluate our judgments, estimates, and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates, and assumptions involved in valuing our investments in life insurance policies and evaluating deferred taxes have the greatest potential impact on our consolidated financial statements and accordingly believe these to be our critical accounting estimates. Below we discuss the critical accounting policies associated with these estimates as well as certain other critical accounting policies.

Ownership of Life Insurance Policies — Fair Value Option

We account for the purchase of life insurance policies in accordance with Accounting Standards Codification 325-30, *Investments in Insurance Contracts*, which requires us to use either the investment method or the fair value method. We have elected to account for all of our life insurance policies using the fair value method.

The fair value of our life insurance policies is determined as the net present value of the life insurance portfolio’s future expected cash flows (policy benefits received and required premium payments) that incorporates current life expectancy estimates and discount rate assumptions.

We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain (revenue) in the current period, net of premiums paid. Changes in the fair value of our portfolio are based on periodic evaluations and are recorded in our consolidated statements of operations as changes in fair value of life insurance policies.

Fair Value Components — Medical Underwriting

Unobservable inputs, as discussed below, are a critical component of our estimate for the fair value of our investments in life insurance policies. We currently use a probabilistic method of estimating and valuing the projected cash flows of our portfolio, which we believe to be the preferred and most prevalent valuation method in the industry. In this regard, the most significant assumptions we make are the life expectancy estimates of the insureds and the discount rate applied to the expected future cash flows to be derived from our portfolio.

The 2015 Valuation Basic Table ("2015 VBT") finalized by the Society of Actuaries is based on a much larger dataset of insured lives, face amount of policies and more current information compared to the dataset underlying the 2008 Valuation Basic Table. The 2015 VBT dataset includes 266 million policies compared to the 2008 VBT dataset of 75 million. The experience data in the 2015 VBT dataset includes 2.55 million claims on policies from 51 insurance carriers. Life expectancies implied by the 2015 VBT are generally longer for male and female nonsmokers between the ages of 65 and 80, while smokers and insureds of both genders over the age of 85 have significantly lower life expectancies. We adopted the 2015 VBT in our valuation process in June 2016.

For life insurance policies with face amounts greater than $1 million and that are not pledged under any senior credit facility (approximately 11% of our portfolio by face amount of policy benefits) we attempt to update the independent life expectancy estimates on a continuous rotating three year cycle. For life insurance policies with face amounts greater than $750,000 that are pledged under the senior credit facility with LNV Corporation (approximately 82.6% of our portfolio by face amount of policy benefits) we are presently required to update the independent life expectancy estimates every two years beginning from the date of the amended facility.

We conduct medical underwriting on the life insurance policies we own with life expectancy reports produced by independent third-party medical-actuarial underwriting firms. Each life expectancy report summarizes the underlying insured person's medical history based on the underwriter's review of recent and historical medical records. We obtain two such life expectancy reports for almost all policies, except for small face value insurance policies (i.e., a policy with $1 million in face value benefits or less) for which we have obtained at least one fully underwritten or simplified third-party report. A simplified third-party underwriting report is based on a medical interview, which may be supplemented with additional information obtained from a pharmacy benefit manager database. For valuation purposes, we use the life expectancy estimate, using the average in the case of multiple reports, expressed as the number of months at which the individual will have a 50% probability of mortality.

Our prior experience in updating independent life expectancy estimates has generally resulted in shorter life expectancies of the updated insureds within our portfolio, but often not as short as we had projected. As our life insurance portfolio continues to grow, we may experience additional and material adjustments to the fair value of our portfolio due to updating independent life expectancy estimates. For more information about life expectancy estimates and their impact upon our business and financial statements, please see Risk Factors ("*If actuarial assumptions we obtain from third-party providers* . . . ."), and Note 4 to our consolidated financial statements.

During 2017 we received notice of, or support for, COI rate changes on 8 policies with combined face value of $23.5 million in our portfolio. These increased charges resulted in a $1.9 million reduction in the fair value of our portfolio.

We are aware of additional pending COI increases affecting three policies in our portfolio for which we are in receipt of notice and expect to quantify and recognize in the following months. We have requested additional information and policy illustrations reflecting the increased rates from the insurers which will enable us to revise our projections and valuations on the affected policies.

Fair Value Components — Required Premium Payments

We must pay the premiums on the life insurance policies within our portfolio in order to collect the policy benefit. The same probabilistic model and methodologies used to generate expected cash inflows from the life insurance policy benefits over the expected life of the insured are used to estimate cash outflows due to required premium payments. Premiums paid are offset against revenue in the applicable reporting period.

Fair Value Components — Discount Rate

A discount rate is used to calculate the net present value of the expected cash flows. The discount rate used to calculate fair value of our portfolio incorporates the guidance provided by ASC 820, *Fair Value Measurements and Disclosures*.

The table below provides the discount rate used to estimate the fair value of our portfolio of life insurance policies for the period ending:

December 31, 2017	December 31, 2016
10.45%	10.96%

The change in the discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed by us in the life insurance secondary market, market interest rates, credit exposure to the issuing insurance companies, and our estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. Management has discretion regarding the combination of these and other factors when determining the discount rate. The discount rate we choose assumes an orderly and arms-length transaction (i.e., a non-distressed transaction in which neither seller nor buyer is compelled to engage in the transaction), which is consistent with related GAAP guidance. The carrying value of policies acquired during each quarterly reporting period are adjusted to their current fair value using the fair value discount rate applied to the entire portfolio as of that reporting date.

We engaged Model Actuarial Pricing Systems, LP (“MAPS”), owner of the actuarial portfolio pricing software we use, to prepare a calculation of our life insurance portfolio. MAPS processed policy data, future premium data, life expectancy estimate data, and other actuarial information to calculate a net present value for our portfolio using the specified discount rate of 10.45%. MAPS independently calculated the net present value of our portfolio of 898 policies to be $650.5 million and furnished us with a letter documenting its calculation. A copy of such letter is filed as Exhibit 99.1 to this report.

Deferred Income Taxes

Under Accounting Standards Codification 740, *Income Taxes*, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for deferred tax assets that are not considered “more likely than not” to be realized. Realization of deferred tax assets depends upon having sufficient past or future taxable income in periods to which the deductible temporary differences are expected to be recovered or within any applicable carryback or carryforward periods or sufficient tax planning strategies. After assessing the realization of the net deferred tax assets, we believe that there is substantial uncertainty that our net deferred tax asset will be realized during the applicable carryover period. As such, a valuation allowance has been established against the total net deferred tax asset as of December 31, 2017.

Principal Revenue and Expense Items

We earn revenues from the following three primary sources.

Life Insurance Policy Benefits Realized. We recognize the difference between the face value of the policy benefits and carrying value when an insured event has occurred and determine that settlement and collection of the policy benefits is realizable and reasonably assured. Revenue from a transaction must meet both criteria in order to be recognized. We generally collect the face value of the life insurance policy from the insurance company within 45 days of our notification of the insured's mortality.

Change in Fair Value of Life Insurance Policies. We value our portfolio investments for each reporting period in accordance with the fair value principles discussed herein, which reflects the expected receipt of policy benefits in future periods, net of premium costs, as shown in our consolidated financial statements.

Sale of a Life Insurance Policy. In the event of a sale of a policy, we recognize gain or loss as the difference between the sale price and the carrying value of the policy on the date of the receipt of payment on such sale.

Our main components of expense are summarized below.

Selling, General and Administrative Expenses. We recognize, and record expenses incurred in our business operations, including operations related to the purchasing and servicing of life insurance policies. These expenses include salaries and benefits, sales, marketing, occupancy and other expenditures.

Interest Expense. We recognize, and record interest expenses associated with the costs of financing our life insurance portfolio for the current period. These expenses include interest paid to our senior lender under our senior credit facility with LNV Corporation, interest paid on our L Bonds and other outstanding indebtedness. When we issue debt, we amortize the financing costs (commissions and other fees) associated with such indebtedness over the outstanding term of the financing and classify it as interest expense.

Results of Operations — 2017 Compared to 2016

The following is our analysis of the results of operations for the periods indicated below. This analysis should be read in conjunction with our consolidated financial statements and related notes.

Revenue	Years Ended December 31, 2017	2016
Revenue recognized from maturities of life insurance contracts	$48,649,000	$37,459,000
Revenue recognized from change in fair value of life insurance contracts	66,761,000	70,582,000
Premiums and other annual fees	(53,296,000)	(40,239,000)
Gain on life insurance policies, net	62,114,000	67,802,000
Other income	2,020,000	1,675,000
Total revenue	$64,134,000	$69,477,000
Number of policies matured	47	23
Face value of matured policies	$64,719,000	$48,452,000
The change in fair value related to new policies acquired during the year	$31,019,000	$38,205,000

The discount rate applied to estimate the fair value of the portfolio of life insurance policies we own was 10.45% and 10.96% as of December 31, 2017 and 2016, respectively.

Expenses

	2017	2016	Increase	
Interest expense (including amortization of deferred financing costs)	$54,419,000	$42,343,000	$12,076,000	(1)
Employee compensation and benefits	14,870,000	11,784,000	3,086,000	(2)
Legal and professional expenses	5,096,000	3,948,000	1,148,000	(3)
Provision for MCA advances	1,308,000	600,000	708,000	(4)
Other expenses	11,171,000	10,077,000	1,094,000	(5)
Total expenses	$86,864,000	$68,752,000	$18,112,000	

(1) Increase is primarily due to the increase in the average debt outstanding from $471.4 million in 2016 to $597.5 million in 2017, contributing $11.4 million of interest expense.

(2) Increase is primarily due to increases of $2.1 million for expense attributable to stock options and SARs and $0.8 million in severance payments made to several former executives.

(3) Increase is due to legal fees associated with MCA collections as well as increased costs related to securities offerings and on-going compliance.

(4) Increase is due to continued impairment of the Nulook loan due to decreased recovery estimates.

(5) Increase is primarily due to increases of $0.5 million for sales and marketing costs associated with growing and servicing our network of independent financial advisors and appointed agents and $0.8 million in technology costs.

Deferred Income Taxes

Under ASC 740, Income Taxes (“ASC 740”), deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for deferred tax assets that are not considered “more likely than not” to be realized. Realization of deferred tax assets depends upon having sufficient past or future taxable income in periods to which the deductible temporary differences are expected to be recovered or within any applicable carryback or carryforward periods. After assessing the realization of the net deferred tax assets, we believe that there is substantial uncertainty that our net deferred tax asset will be realized during the applicable carryover period. As such, a valuation allowance has been established against the total net deferred tax asset as of December 31, 2017.

Income Tax Expense

We realized a net income tax benefit of $2.1 million for the year ended December 31, 2017 and a net income tax expense of $0.3 million for the year ended December 31, 2016. The effective rate for the years ended December 31, 2017 and 2016 was 9.2% and 46.0%, respectively, compared to an expected statutory rate of 34%.

The following table provides a reconciliation of our income tax expense at the statutory federal tax rate to our actual income tax expense:

	2017		2016	
Statutory federal income tax (benefit)	$(7,728,000)	34.0 %	$247,000	34.0%
State income taxes (benefit), net of federal benefit	(1,433,000)	6.3 %	56,000	7.8 %
Impact of change in enacted rate	2,605,000	(11.4)%	—	—
Change in valuation allowance	4,222,000	(18.6)%	—	—
Other permanent differences	237,000	(1.1)%	30,000	4.2 %
Total income tax expense (benefit)	$(2,097,000)	9.2 %	$333,000	46.0%

The Tax Reform Bill enacted by the U.S. federal government in December 2017 changed existing tax law including a reduction of the U.S. corporate income tax rate. The Company re-measured deferred taxes as of the date of enactment, resulting in a $2,605,000 reduction of net deferred income tax assets and a corresponding decrease to earnings in 2017. With the Tax Reform Bill, we expect our effective tax rate in 2018 will be approximately 28.7%.

The most significant temporary differences between GAAP net income (loss) and taxable net income (loss) are the treatment of interest costs with respect to the acquisition of the life insurance policies and revenue recognition with respect to the mark-to-market of our life insurance portfolio.

Liquidity and Capital Resources

We finance our business through a combination of life insurance policy benefit receipts, equity offerings, debt offerings, and our senior credit facility. We have used our debt offerings and our senior credit facility primarily for policy acquisition, policy servicing, and portfolio-related financing expenditures including paying principal and interest.

As of December 31, 2017 and December 31, 2016, we had approximately $159.4 million and $121.7 million, respectively, in combined available cash, cash equivalents, and policy benefits receivable for the purpose of purchasing additional life insurance policies, paying premiums on existing policies, paying portfolio servicing expenses, and paying principal and interest on our outstanding financing obligations. Additional future borrowing base capacity for premiums and servicing costs, created as the premiums and servicing costs of pledged life insurance policies become due and by additional policy pledges to the facility or not, exists under the amended and restated senior credit facility with LNV Corporation.

Financings Summary

We had the following outstanding debt balances as of December 31, 2017 and December 31, 2016:

	As of December 31, 2017		As of December 31, 2016	
Issuer/Borrower	Principal Amount Outstanding	Weighted Average Interest Rate	Principal Amount Outstanding	Weighted Average Interest Rate
GWG Holdings, Inc. – L Bonds (see Note 8)	$461,427,000	7.29 %	$387,067,000	7.23 %
GWG Life, LLC – Series I Secured Notes	—	N/A	16,614,000	8.68 %
GWG DLP Funding IV, LLC – senior credit facility with LNV Corporation (see Note 6)	222,525,000	9.31 %	162,725,000	7.34 %
Total	$683,952,000	7.95 %	$566,406,000	7.30 %

As of September 8, 2017, all of the Series I Secured Notes had been paid in full and all obligations thereunder had been terminated.

A-7

The Series I Secured Notes were governed by an Intercreditor Agreement, a Third Amended and Restated Note Issuance and Security Agreement dated November 1, 2011, as amended, and a related Pledge Agreement. Upon the redemption of the Series I Secured Notes and the termination of all obligations outstanding thereunder, those agreements were terminated effective as of September 8, 2017.

In June 2011, we concluded a private placement offering of Series A Preferred Stock for new investors, having received an aggregate $24.6 million in subscriptions for our Series A Preferred Stock. These subscriptions consisted of $14.0 million in conversions of outstanding Series I Secured Notes into Series A Preferred Stock and $10.6 million of new investments.

On October 9, 2017, we exercised our contractual right to call for the redemption of the Series A Preferred Stock and all related outstanding warrants and paid an aggregate of approximately $22.2 million.

In January 2012, we began publicly offering up to $250.0 million in debt securities (initially named “Renewable Secured Debentures” and subsequently renamed “L Bonds”) that was completed in January 2015.

On September 24, 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at $12.50 per share and net proceeds of approximately $8.6 million after the deduction of underwriting commissions, discounts and expense reimbursements.

In January 2015, we began publicly offering up to $1.0 billion of L Bonds as a follow-on to our earlier $250.0 million public debt offering. Through December 31, 2017, the total amount of these L Bonds sold, including renewals, was $856.3 million. As of December 31, 2017 and December 31, 2016, respectively, we had approximately $461.4 million and $387.1 million in principal amount of L Bonds outstanding.

In October 2015, we began publicly offering up to 100,000 shares of our Redeemable Preferred Stock (RPS) at a per-share price of $1,000. As of December 31, 2017, we had issued approximately $99.1 million stated value of RPS and have terminated that offering.

On February 14, 2017, we began publicly offering up to 150,000 shares of Series 2 Redeemable Preferred Stock (RPS 2) at a per-share price of $1,000. As of December 31, 2017, we have issued approximately $88.7 million stated value of RPS 2.

On January 2, 2018, we began publicly offering up to $1.0 billion L Bonds as a follow-on to our earlier $1.0 billion L Bond offering. As of December 31, 2017, we have not issued any L Bonds in our follow-on offering.

The weighted-average interest rate of our outstanding L Bonds as of December 31, 2017 and December 31, 2016 was 7.29% and 7.23%, respectively, and the weighted-average maturity at those dates was 2.38 and 2.13 years, respectively. Our L Bonds have renewal features. Since we first issued our L Bonds, we have experienced $394.9 million in maturities, of which $234.7 million has renewed through December 31, 2017 for an additional term. This has provided us with an aggregate renewal rate of approximately 59.4% for investments in these securities.

Future contractual maturities of L Bonds at December 31, 2017 are:

Years Ending December 31,	L Bonds
2018	$105,916,000
2019	151,689,000
2020	78,402,000
2021	30,759,000
2022	40,018,000
Thereafter	54,643,000
	$461,427,000

The L Bonds are secured by all of our assets and are subordinate to our senior credit facility with LNV Corporation.

On September 27, 2017, we entered into a $300 million amended and restated senior credit facility with LNV Corporation in which DLP IV is the borrower. We intend to use the proceeds from this facility to grow and maintain our portfolio of life insurance policies, for liquidity and for general corporate purposes. As of December 31, 2017 we had approximately $222.5 million outstanding under the senior credit facility with LNV Corporation.

We expect to meet our ongoing operational capital needs through a combination of the receipt of policy benefits from our portfolio of life insurance policies and net proceeds from our L Bonds and RPS 2 offerings. We expect to meet our policy acquisition, servicing, and financing capital needs principally from the receipt of policy benefits from our portfolio of life insurance policies, net proceeds from our offering of L Bonds and RPS 2, and from our senior credit facility with LNV Corporation. We estimate that our liquidity and capital resources are sufficient for our current and projected financial needs for at least the next twelve months given current assumptions. However, if we are unable to continue our offerings for any reason (or if we become unsuccessful in selling our securities), and we are unable to obtain capital from other sources, our business will be materially and adversely affected. In addition, our business will be materially and adversely affected if we do not receive the policy benefits we forecast and if holders of our L Bonds fail to renew with the frequency we have historically experienced. In such a case, we could be forced to sell our investments in life insurance policies to service or satisfy our debt-related and other obligations. A sale under such circumstances may result in significant impairment of the recognized value of our portfolio.

Capital expenditures have historically not been material and we do not anticipate making material capital expenditures in 2018 or beyond.

Debt Financings Summary

The table below reconciles the face amount of our outstanding debt to the carrying value shown on our balance sheet:

	As of December 31, 2017	As of December 31, 2016
Total senior facilities and other indebtedness:		
Face amount outstanding	$222,525,000	$162,725,000
Unamortized selling costs	(10,287,000)	(6,660,000)
Carrying amount	$212,238,000	$156,065,000
Series I Secured Notes:		
Face amount outstanding	$—	$16,614,000
Unamortized selling costs	—	(209,000)
Carrying amount	$—	$16,405,000
L Bonds:		
Face amount outstanding	$461,427,000	$387,067,000
Subscriptions in process	1,560,000	5,882,000
Unamortized selling costs	(15,593,000)	(11,636,000)
Carrying amount	$447,394,000	$381,313,000

Portfolio Assets and Secured Indebtedness

At December 31, 2017, the fair value of our investments in life insurance policies of $650.5 million plus our cash balance of $114.4 million and our restricted cash balance of $28.3 million, plus matured policy benefits receivable of $16.7 million, totaled $809.9 million, representing an excess of portfolio assets over secured indebtedness of $126.0 million. At December 31, 2016, the fair value of our investments in life insurance policies of $511.2 million plus our cash balance of $78.5 million and our restricted cash balance of $37.8 million, plus matured policy benefits receivable of $5.3 million, totaled $632.9 million representing an excess of portfolio assets over secured indebtedness of $66.4 million.

The following forward-looking table seeks to illustrate the impact that a hypothetical sale of our portfolio of life insurance assets at various discount rates would have on our ability to satisfy our debt obligations as of December 31, 2017. In all cases, the sale of the life insurance assets owned by DLP IV will be used first to satisfy all amounts owing under the respective senior credit facility with LNV Corporation. The net sale proceeds remaining after satisfying all obligations under the senior credit facility with LNV Corporation would be applied to L Bonds on a pari passu basis.

Portfolio Discount Rate	10%	11%	12%	13%	14%	15%	16%
Value of portfolio	$664,849,000	$633,741,000	$605,099,000	$578,666,000	$554,216,000	$531,554,000	$510,506,000
Cash, cash equivalents and policy benefits receivable	159,430,000	159,430,000	159,430,000	159,430,000	159,430,000	159,430,000	159,430,000
Total assets	824,279,000	793,171,000	764,529,000	738,096,000	713,646,000	690,984,000	669,936,000
Senior credit facility	222,525,000	222,525,000	222,525,000	222,525,000	222,525,000	222,525,000	222,525,000
Net after senior credit facility	601,754,000	570,646,000	542,004,000	515,571,000	491,121,000	468,459,000	447,411,000
L Bonds	461,427,000	461,427,000	461,427,000	461,427,000	461,427,000	461,427,000	461,427,000
Net after L Bonds	140,327,000	109,219,000	80,577,000	54,144,000	29,694,000	7,032,000	(14,016,000)
Impairment to L Bonds	No impairment	No impairment	No impairment	No impairment	No impairment	No impairment	Impairment

The table illustrates that our ability to fully satisfy amounts owing under the L Bonds would likely be impaired upon the sale of all our life insurance assets at a price equivalent to a discount rate of approximately 15.04% or higher. At December 31, 2016, the likely impairment occurred at a discount rate of approximately 13.94% or higher. The discount rates used to calculate the fair value of our portfolio were 10.45% and 10.96% as of December 31, 2017 and December 31, 2016, respectively.

The table does not include any allowance for transactional fees and expenses associated with a portfolio sale (which expenses and fees could be substantial) and is provided to demonstrate how various discount rates used to value our portfolio could affect our ability to satisfy amounts owing under our debt obligations in light of our senior secured lender’s right to priority payments. This table also does not include the yield maintenance fee, which could be substantial, we are required to pay in certain circumstances under our senior credit facility with LNV Corporation. You should read the above table in conjunction with the information contained in other sections of this report, including our discussion of discount rates included under the “Critical Accounting Policies — Fair Value Components — Discount Rate” caption above.

Amendment of Credit Facility

Effective September 27, 2017, DLP IV entered into an Amended and Restated Loan and Security Agreement with LNV Corporation, as lender, and CLMG Corp., as the administrative agent on behalf of the lenders under the agreement. The Loan and Security Agreement makes available a total of up to $300,000,000 in credit to DLP IV with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due and by additional policy pledges to the facility or not. Interest will accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no borrowing, equal to (A) the greater of 12-month LIBOR or the federal funds rate (as defined in the agreement) plus one-half of one percent per annum, plus (B) 7.50% per annum. The effective rate at December 31, 2017 was 9.31%. Interest payments are made on a quarterly basis.

Under the Amended and Restated Loan and Security Agreement, DLP IV has granted the administrative agent, for the benefit of the lenders under the agreement, a security interest in all of DLP IV’s assets. As with prior collateral arrangements relating to the senior secured debt of GWG Holdings and its subsidiaries (on a consolidated basis), GWG Holdings’ equity ownership in DLP IV continues to serve as collateral for the obligations of GWG Holdings under the L Bonds (although the life insurance assets owned by DLP IV will not themselves serve directly as collateral for those obligations).

Cash Flows

The payment of premiums and servicing costs to maintain life insurance policies represents our most significant requirement for cash disbursement. When a policy is purchased, we are able to calculate the minimum premium payments required to maintain the policy in-force. Over time as the insured ages, premium payments will increase. Nevertheless, the probability we will actually be required to pay the premiums decreases as mortality becomes more likely. These scheduled premiums and associated probabilities are factored into our expected internal rate of return and cash-flow modeling. Beyond premiums, we incur policy servicing costs, including annual trustee, tracking costs, and debt servicing costs, including principal and interest payments all of which are excluded from our internal rate of return calculations. Until we receive a sufficient amount of proceeds from the policy benefits, we intend to pay these costs from our senior credit facility with LNV Corporation, when permitted, and through the issuance of debt securities, including the L Bonds, and equity securities including our preferred stock offerings.

The amount of payments for anticipated premiums and servicing costs that we will be required to make over the next five years to maintain our current portfolio, assuming no mortalities, is set forth in the table below.

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
2018	$53,548,000	$1,102,000	$54,650,000
2019	61,125,000	1,102,000	62,227,000
2020	69,886,000	1,102,000	70,988,000
2021	79,081,000	1,102,000	80,183,000
2022	89,102,000	1,102,000	90,204,000
	$352,742,000	$5,510,000	$358,252,000

Our anticipated premium expenses are subject to the risk of increased cost-of-insurance charges (i.e., premium charges) for the universal life insurance policies we own. We are aware of additional pending COI increases affecting three policies in our portfolio that we have received notice on and expect to quantify and recognize in the following months. As a result, we expect that our premium expense will increase and the fair value of the affected policies and our portfolio will be negatively impacted once we receive additional information and policy illustrations reflecting the increased rates from the insurers to revise our projections and valuations. Except as noted above, we are not aware of COI increases by other insurers, but we are aware that COI increases have become more prevalent in the industry. Thus, we may see additional insurers implementing COI increases in the future. See also the Risk Factor section of this report *("Cost-of-insurance (premium) increases could materially and adversely affect our profitability and financial condition.").*

For the quarter-end dates set forth below, the following table illustrates the total amount of face value of policy benefits owned, and the trailing 12 months of life insurance policy benefits realized and premiums paid on our portfolio. The trailing 12-month benefits/premium coverage ratio indicates the ratio of policy benefits realized to premiums paid over the trailing 12-month period from our portfolio of life insurance policies.

Quarter End Date	Portfolio Face Amount ($)	12-Month Trailing Benefits Realized	12-Month Trailing Premiums Paid	12-Month Trailing Benefits/Premium Coverage Ratio	
March 31, 2015	754,942,000	46,675,000	23,786,000	196.2	%
June 30, 2015	806,274,000	47,125,000	24,348,000	193.5	%
September 30, 2015	878,882,000	44,482,000	25,313,000	175.7	%
December 31, 2015	944,844,000	31,232,000	26,650,000	117.2	%
March 31, 2016	1,027,821,000	21,845,000	28,771,000	75.9	%
June 30, 2016	1,154,798,000	30,924,000	31,891,000	97.0	%
September 30, 2016	1,272,078,000	35,867,000	37,055,000	96.8	%

December 31, 2016	1,361,675,000	48,452,000	40,239,000	120.4	%
March 31, 2017	1,447,558,000	48,189,000	42,753,000	112.7	%
June 30, 2017	1,525,363,000	49,295,000	45,414,000	108.5	%
September 30, 2017	1,622,627,000	53,742,000	46,559,000	115.4	%
December 31, 2017	1,676,148,000	64,719,000	52,263,000	123.8	%

We believe that the portfolio cash flow results set forth above are consistent with our general investment thesis: that the life insurance policy benefits we receive will continue to increase over time in relation to the premiums we are required to pay on the remaining polices in the portfolio. Nevertheless, we expect that our portfolio cash flow on a period-to-period basis will remain inconsistent until such time as we achieve our goal of acquiring a larger, more diversified portfolio of life insurance policies.

Inflation

Changes in inflation do not necessarily correlate with changes in interest rates. We presently do not foresee any material impact of inflation on our results of operations in the periods presented in our consolidated financial statements.

Off-Balance Sheet Arrangements

We are party to an office lease with U.S. Bank National Association as the landlord. On September 1, 2015, we entered into an amendment that expanded the leased space to 17,687 square feet and extended the term through October 2025 (see Note 17 to the Consolidated Financial Statements).

Credit Risk

We review the credit risk associated with our portfolio of life insurance policies when estimating its fair value. In evaluating the policies' credit risk, we consider insurance company solvency, credit risk indicators, economic conditions, ongoing credit evaluations, and company positions. We attempt to manage our credit risk related to life insurance policies typically by purchasing policies issued only from companies with an investment-grade credit rating by either Standard & Poor's, Moody's, or A.M. Best Company. As of December 31, 2017, 96.7% of our life insurance policies, by face value benefits, were issued by companies that maintained an investment-grade rating (BBB or better) by Standard & Poor's.

Interest Rate Risk

Our senior credit facility with LNV Corporation is floating-rate financing. In addition, our ability to offer interest and dividend rates that attract capital (including in our continuous offering of L Bonds and RPS 2) is generally impacted by prevailing interest rates. Furthermore, while our L Bond and RPS 2 offerings provide us with fixed-rate debt and equity financing, respectively, our debt coverage ratio is calculated in relation to the interest rate on all of our debt financing. Therefore, fluctuations in interest rates impact our business by increasing our borrowing costs and reducing availability under our debt financing arrangements. We calculate our portfolio earnings based upon the spread generated between the return on our life insurance portfolio and the total cost of our financing. As a result, increases in interest rates will reduce the earnings we expect to achieve from our investments in life insurance policies.

Non-GAAP Financial Measures

Non-GAAP financial measures disclosed by our management are provided as additional information to investors in order to provide an alternative method for assessing our financial condition and operating results. These non-GAAP financial measures are not in accordance with GAAP and may be different from non-GAAP measures used by other companies, including other companies within our industry. This presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for comparable amounts prepared in accordance with GAAP. See our consolidated financial statements and our financial statements contained herein.

We use non-GAAP financial measures for management's assessment of our financial condition and operating results without regard to GAAP fair value standards. The application of current GAAP fair value standards, especially during a period of significant growth of our portfolio and our Company may result in current period GAAP financial results that may not be reflective of our long-term earnings potential or overall financial condition. Management believes that our non-GAAP financial measures permit investors to understand long-term earnings performance without regard to the volatility in GAAP financial results that can, and does, occur during this stage of our portfolio and company growth.

Therefore, in contrast to a GAAP fair valuation, we seek to measure the accrual of the actuarial gain occurring within the portfolio of life insurance policies at our expected internal rate of return (exclusive of future interest costs) based on statistical mortality probabilities for the insureds (using primarily the insured's age, sex, health and smoking status). The expected internal rate of return tracks actuarial gain occurring within the policies according to a mortality table as the insureds' age increases. By comparing the actuarial gain accruing within our portfolio of life insurance policies against our adjusted operating costs during the same period, we can estimate, manage and evaluate the overall financial performance of our business without regard to fair value volatility. We use this information to balance our life insurance policy purchasing and manage our capital structure, including the issuance of debt and utilization of our other sources of capital, and to monitor our compliance with borrowing covenants. We believe that these non-GAAP financial measures provide information that is useful for investors to understand period-over-period operating results separate and apart from fair value items that can have a disproportionately positive or negative impact on GAAP results in any particular reporting period.

Our senior credit facility with Autobahn/DZ Bank, which we terminated effective as of September 12, 2017, required us to maintain a "positive net income" and "tangible net worth," each of which were calculated on an adjusted non-GAAP basis using the method described below, without regard to GAAP-based fair value measures. In addition, our senior credit facility with Autobahn/DZ Bank required us to maintain an "excess spread," which is the difference between (i) the weighted average of our expected internal rate of return of our portfolio of life insurance policies; and (ii) the weighted average of the senior credit facility with Autobahn/DZ Bank's interest rate.

In addition, the note issuance and security agreement governing our Series I Secured Notes, which we terminated effective as of September 8, 2017, and the Indenture governing our L Bonds requires us to maintain a "debt coverage ratio" designed to provide reasonable assurance that the buy and hold value of our portfolio plus certain short-term assets exceed our total outstanding indebtedness. This ratio is calculated using non-GAAP measures in the method described below, again without regard to GAAP-based fair value measures.

Non-GAAP Investment Cost Basis	As of December 31, 2017	As of December 31, 2016
GAAP fair value	$650,527,000	$511,192,000
Unrealized fair value gain[1]	(331,386,000)	(264,625,000)
Adjusted cost basis increase[2]	325,100,000	248,377,000
Investment cost basis[3]	$644,241,000	$494,944,000

(1) This represents the reversal of cumulative unrealized GAAP fair value gain of life insurance policies.
(2) Adjusted cost basis is increased to interest, premiums and servicing fees that are expensed under GAAP.
(3) This is the non-GAAP cost basis in life insurance policies from which our expected internal rate of return is calculated.

Excess Spread. Management uses the "total excess spread" to gauge expected profitability of our investments. The Expected IRR of our portfolio is based upon future cash flow forecasts derived from a probabilistic analysis of our policy benefits received and policy premiums paid in relation to our non-GAAP investment cost basis.

	As of December 31, 2017	As of December 31, 2016
Expected IRR[1]	10.48 %	11.34 %
Total weighted-average interest rate on indebtedness for borrowed money[2]	7.95 %	7.30 %
Total excess spread[3]	2.53 %	4.04 %

(1) Excludes IRR realized on matured life insurance policies – which are substantial.

(2) Represents the weighted-average interest rate paid on all interest-bearing indebtedness as of the measurement date, determined as follows:

Indebtedness	As of December 31, 2017	As of December 31, 2016
Senior credit facility with LNV Corporation	$222,525,000	$162,725,000
Series I Secured Notes	—	16,614,000
L Bonds	461,427,000	387,067,000
Total	$683,952,000	$566,406,000

Interest Rates on Indebtedness		
Senior credit facility with LNV Corporation	9.31%	7.34%
Series I Secured Notes	—	8.68%
L Bonds	7.29%	7.23%
Weighted-average interest rates on indebtedness	7.95%	7.30%

(3) Calculated as the Expected IRR minus the weighted-average interest rate on interest-bearing indebtedness[(2)].

Adjusted Non-GAAP Net Income. We calculate our adjusted non-GAAP net income by recognizing the actuarial gain accruing within our life insurance portfolio at the Expected IRR against our adjusted cost basis without regard to fair value. We net this actuarial gain against our adjusted operating costs during the same period to calculate our net income on a non-GAAP basis.

	Years Ended December 31,	
	2017	2016
GAAP net (loss) attributable to common shareholders	$(33,335,000)	$(3,145,000)
Unrealized fair value gain[1]	(66,761,000)	(70,582,000)
Adjusted cost basis increase[2]	99,320,000	72,818,000
Accrual of unrealized actuarial gain[3]	25,434,000	31,873,000
Total adjusted non-GAAP net income attributable to common shareholders	$24,658,000	$30,964,000

(1) Reversal of unrealized GAAP fair value gain on life insurance policies for current period.
(2) Adjusted cost basis is increased to include interest, premiums and servicing fees that are expensed under GAAP.
(3) Accrual of actuarial gain at Expected IRR.

Adjusted Non-GAAP Tangible Net Worth. We calculate our adjusted non-GAAP tangible net worth by recognizing the actuarial gain accruing within our life insurance policies at the Expected IRR of the policies we own without regard to fair value. We net this actuarial gain against our costs during the same period to calculate our adjusted tangible net worth on a non-GAAP basis.

	As of December 31, 2017	As of December 31, 2016
GAAP net worth	$133,672,000	$67,298,000
Less intangible assets[1]	(30,354,000)	(19,442,000)
GAAP tangible net worth	103,318,000	47,856,000
Unrealized fair value gain[2]	(331,386,000)	(264,625,000)
Adjusted cost basis increase[3]	325,100,000	248,377,000
Accrual of unrealized actuarial gain[4]	158,241,000	132,808,000
Total adjusted non-GAAP tangible net worth	$255,273,000	$164,416,000

(1) Unamortized portion of deferred financing costs and pre-paid insurance.
(2) Reversal of cumulative unrealized GAAP fair value gain or loss of life insurance policies.
(3) Adjusted cost basis is increased to include interest, premiums and servicing fees that are expensed under GAAP.

(4) Accrual of cumulative actuarial gain at Expected IRR.

Debt Coverage Ratio. Our L Bonds borrowing covenants require us to maintain a debt coverage ratio of less than 90%. The debt coverage ratio is calculated by dividing the sum of our total interest-bearing indebtedness by the sum of our cash, cash equivalents, and policy benefits receivable by the net present value of the life insurance portfolio, and, without duplication, the value of all of our other assets as reflected on our most recently available balance sheet prepared in accordance with GAAP (see Item 9B).

	As of December 31, 2017		As of December 31, 2016	
Life insurance portfolio policy benefits	$1,676,148,000		$1,361,675,000	
Discount rate of future cash flows[1]	7.95	%[1]	7.30	%[1]
Net present value of life insurance portfolio policy benefits	$737,625,000		$614,908,000	
Cash, cash equivalents	142,771,000		116,314,000	
Life insurance policy benefits receivable	16,659,000		5,345,000	
Total Coverage	$897,055,000		$736,567,000	
Senior credit facilities	$222,525,000		$162,725,000	
Series I Secured Notes	—		16,614,000	
L Bonds	461,427,000		387,067,000	
Total Indebtedness	$683,952,000		$566,406,000	
Debt Coverage Ratio	76.24	%	76.90	%

(1) Weighted average-interest rate paid on indebtedness.

As of December 31, 2017, we were in compliance with the debt coverage ratio.

Expected Portfolio Internal Rate of Return at Purchase. Expected portfolio IRR at purchase is calculated as the weighted average (by face amount of policy benefits) derived from a probabilistic analysis of policy benefits received and policy premiums paid relative to our purchase price for all life insurance policies in the portfolio. This non-GAAP measure isolates our IRR expectation at purchase utilizing our underwriting life expectancy assumptions at the time of purchase. This measure does not change with the passage of time as compared to our non-GAAP investment cost basis that increases with the payment of premiums, financing costs, and the effective life expectancy which changes over time, both of which are used to calculate our Expected IRR.

	2017	2016
Life insurance portfolio policy benefits	$1,676,148,000	$1,361,675,000
Total number of polices	898	690

Non-GAAP Expected Portfolio Internal Rate of Return at Purchase	15.32 %	15.64 %

A-15

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of GWG Holdings, Inc. and Subsidiaries:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of GWG Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework: (2013)* issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Baker Tilly Virchow Krause, LLP
Minneapolis, Minnesota

We have served as the Company's auditor since 2013.

March 29, 2018

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$114,421,491	$78,486,982
Restricted cash	28,349,685	37,826,596
Investment in life insurance policies, at fair value	650,527,353	511,192,354
Secured MCA advances	1,661,774	5,703,147
Life insurance policy benefits receivable	16,658,761	5,345,000
Other assets	7,237,110	4,688,103
TOTAL ASSETS	$818,856,174	$643,242,182
LIABILITIES & STOCKHOLDERS' EQUITY		
LIABILITIES		
Senior Credit Facilities	$212,238,192	$156,064,818
Series I Secured Notes	—	16,404,836
L Bonds	447,393,568	381,312,587
Accounts payable	6,394,439	2,226,712
Interest and dividends payable	15,427,509	16,160,599
Other accrued expenses	3,730,723	1,676,761
Deferred taxes, net	—	2,097,371
TOTAL LIABILITIES	$685,184,431	$575,943,684
STOCKHOLDERS' EQUITY		
CONVERTIBLE PREFERRED STOCK – SERIES A (par value $0.001; shares authorized 40,000,000; shares outstanding 0 and 2,640,521; liquidation preference of $0 and $19,804,000 as of December 31, 2017 and 2016, respectively)	—	19,701,133
REDEEMABLE PREFERRED STOCK (par value $0.001; shares authorized 100,000; shares outstanding 98,611 and 59,183; liquidation preference of $99,186,000 and $59,183,000 as of December 31, 2017 and 2016, respectively)	92,840,243	59,025,164
SERIES 2 REDEEMABLE PREFERRED STOCK (par value $0.001; shares authorized 150,000; shares outstanding 88,709 and 0; liquidation preference of $89,208,000 and $0 as of December 31, 2017 and 2016, respectively)	80,275,204	—
COMMON STOCK (par value $0.001: shares authorized 210,000,000; shares issued and outstanding 5,813,555 and 5,980,190 as of December 31, 2017 and 2016, respectively)	5,813	5,980
Additional paid-in capital	—	7,383,515

Accumulated deficit	(39,449,517)	(18,817,294)
TOTAL STOCKHOLDERS' EQUITY	133,671,743	67,298,498
TOTAL LIABILITIES & EQUITY	$818,856,174	$643,242,182

The accompanying notes are an integral part of these Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2017	December 31, 2016
REVENUE		
Gain on life insurance policies, net	$62,114,403	$67,801,565
MCA income	554,341	929,303
Interest and other income	1,465,174	746,466
TOTAL REVENUE	64,133,918	69,477,334
EXPENSES		
Interest expense	54,419,444	42,343,374
Employee compensation and benefits	14,869,749	11,784,296
Legal and professional fees	5,095,643	3,947,376
Provision for MCA advances	1,308,000	600,000
Other expenses	11,170,676	10,076,976
TOTAL EXPENSES	86,863,512	68,752,022
INCOME (LOSS) BEFORE INCOME TAXES	(22,729,594)	725,312
Income tax expense (benefit)	(2,097,371)	333,403
NET INCOME (LOSS)	(20,632,223)	391,909
Preferred stock dividends	12,702,341	3,537,287
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(33,334,564)	$(3,145,378)
NET LOSS PER SHARE		
Basic	$(5.72)	$(0.53)
Diluted	$(5.72)	$(0.53)
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	5,826,033	5,967,274
Diluted	5,826,033	5,967,274

The accompanying notes are an integral part of these Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock Shares	**Preferred Stock**	**Common Shares**	**Common Stock (par)**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Equity**
Balance, December 31, 2015	2,781,735	$20,784,841	5,941,790	$ 5,942	$14,563,834	$(19,209,203)	$16,145,414
Net income	—	—	—	—	—	391,909	391,909
Issuance of common stock	—	—	36,450	36	244,149	—	244,185
Redemption of Series A Preferred Stock	(239,749)	(1,788,451)	1,950	2	19,498	—	(1,768,951)
Issuance of Series A Preferred Stock	98,535	704,743	—	—	—	—	704,743
Issuance of Redeemable Preferred Stock	59,183	59,025,164	—	—	(4,133,526)	—	54,891,638
Preferred stock dividends	—	—	—	—	(3,537,287)	—	(3,537,287)
Stock-based compensation	—	—	—	—	226,847	—	226,847
Balance, December 31, 2016	2,699,704	$78,726,297	5,980,190	$ 5,980	$7,383,515	$(18,817,294)	$67,298,498
Net loss	—	—	—	—	—	(20,632,223)	(20,632,223)
Issuance of common stock	—	—	33,810	33	320,970	—	321,003
Redemption of common stock	—	—	(200,445)	(200)	(1,603,360)	—	(1,603,560)
	71,237	498,659	—	—	—	—	498,659

Issuance of Series A preferred stock							
Redemption of Series A preferred stock	(2,711,916)	(20,199,792)	—	—	—	—	(20,199,792)
Issuance of redeemable preferred stock	129,622	122,933,106	—	—	(2,338,457)	—	120,594,649
Redemption of redeemable preferred stock	(1,328)	(1,327,776)	—	—	—	—	(1,327,776)
Preferred stock dividends	—	(8,925,807)	—	—	(3,776,534)	—	(12,702,341)
Stock-based compensation	—	1,410,760	—	—	13,866	—	1,424,626
Balance, December 31, 2017	187,319	$173,115,447	5,813,555	$ 5,813	$—	$(39,449,517)	$133,671,743

The accompanying notes are an integral part of these Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(20,632,223)	$391,909
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Change in fair value of life insurance policies	(66,760,811)	(70,582,383)
Amortization of deferred financing and issuance costs	8,780,847	8,445,252
Provision for MCA advances	1,308,000	600,000
Deferred income taxes	(2,097,371)	333,402
Preferred stock issued in lieu of cash dividends	498,659	689,742
(Increase) decrease in operating assets:		
Life insurance policy benefits receivable	(11,313,761)	(5,345,000)
Other assets	(3,088,071)	(1,427,816)
Increase (decrease) in operating liabilities:		
Accounts payable	4,167,728	709,272
Interest and dividends payable	2,708,623	5,171,168
Other accrued expenses	2,622,822	(4,999,443)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(83,805,558)	(66,013,897)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in life insurance policies	(88,643,819)	(94,952,879)
Carrying value of matured life insurance policies	16,069,632	10,992,624
Investment in Secured MCA advances	—	(8,727,924)
Proceeds from Secured MCA advances	2,762,784	2,553,466
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(69,811,403)	(90,134,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on Senior Credit Facilities	59,799,649	104,825,508
Payments for issuance costs of senior debt	(4,510,388)	(7,111,556)
Payments for redemption of Series I Secured Notes	(16,613,667)	(7,469,462)
Proceeds from issuance of L Bonds	131,796,220	153,874,402
Payments for issuance costs of L Bonds	(10,896,925)	(10,149,316)
Payments for redemption of L Bonds	(60,848,460)	(45,754,691)
Proceeds from (increase in) restricted cash	9,476,911	(35,484,697)
(Redemption) issuance of common stock	(1,603,560)	244,185
Proceeds from issuance of preferred stock	127,279,847	57,112,501
Payments for issuance costs of preferred stock	(9,027,190)	(4,140,867)
Payments for redemption of preferred stock	(22,598,626)	(2,198,233)
Preferred stock dividends	(12,702,341)	(3,537,287)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	189,551,470	200,210,487

NET INCREASE IN CASH AND CASH EQUIVALENTS	35,934,509	44,061,877
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	78,486,982	34,425,105
END OF YEAR	$114,421,491	$78,486,982

The accompanying notes are an integral part of these Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED

	Year Ended December 31, 2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$45,990,000	$34,607,000
Premiums paid, including prepaid	$55,471,000	$40,239,000
Stock-based compensation	$1,425,000	$227,000
Payments for exercised stock options	$346,000	$—
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Options and stock appreciation rights issued	534,000	638,000
Series I Secured Notes:		
Conversion of accrued interest and commission payable to principal	$—	$234,000
L Bonds:		
Conversion of accrued interest and commission payable to principal	$1,756,000	$1,988,000
Series A Preferred Stock:		
Conversion to common stock	$—	$39,000
Common stock issued for vendor services	$321,003	$—
Investment in life insurance policies included in accounts payable	$3,913,000	$605,000

The accompanying notes are an integral part of these Consolidated Financial Statements.

A-21

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business — We are a financial services company committed to disrupting and transforming the life insurance industry and related industries. We built our business by creating opportunities for consumers to obtain significantly more value for their life insurance policies in a secondary market as compared to the traditional options offered by the insurance industry. We are enhancing and extending these activities through innovation in our products and services, business processes, financing strategies, and advanced epigenetic technologies. At the same time, we are creating opportunities for investors to receive income and capital appreciation from our investment activities in the life insurance and related industries.

GWG Holdings, Inc. and all of its subsidiaries are incorporated and organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in these footnotes to “we,” “us,” “our,” “our Company,” “GWG or the “Company” refer to GWG Holdings, Inc. and its subsidiaries collectively and on a consolidated basis. References to the full names of particular entities, such as “GWG Holdings, Inc.” or “GWG Holdings,” are meant to refer only to the particular entity referenced.

On December 7, 2015, GWG Holdings formed a wholly owned subsidiary, GWG MCA, LLC. On January 13, 2016, GWG MCA, LLC was converted to a corporation and became GWG MCA Capital, Inc. GWG MCA Capital, Inc. was formed to provide cash advances to small businesses.

On August 25, 2016, GWG Holdings formed a wholly owned subsidiary, Actüa Life & Annuity Ltd., renamed to Life Epigenetics Inc. (“Life Epigenetics”) in August 2017, to engage in various life insurance related businesses and activities related to its exclusive license for “DNA Methylation Based Predictor of Mortality” technology.

Use of Estimates — The preparation of our consolidated financial statements in conformity with the Generally Accepted Accounting Principles in the United States of America (GAAP) requires management to make significant estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue during the reporting period. We regularly evaluate estimates and assumptions, which are based on current facts, historical experience, management’s judgment, and various other factors that we believe to be reasonable under the circumstances. Our actual results may differ materially and adversely from our estimates. The most significant estimates with regard to these consolidated financial statements relate to (1) the determination of the assumptions used in estimating the fair value of our investments in life insurance policies and (2) the value of our deferred tax assets and liabilities.

Cash and Cash Equivalents — We consider cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. We maintain our cash and cash equivalents with highly rated financial institutions. The balances in our bank accounts may exceed Federal Deposit Insurance Corporation limits. We periodically evaluate the risk of exceeding insured levels and may transfer funds as we deem appropriate.

Life Insurance Policies — Accounting Standards Codification 325-30, *Investments in Insurance Contracts* permits a reporting entity to account for its investments in life insurance policies using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance policies. We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain or loss in the current period, net of premiums paid, within Gain on life insurance policies, net in our consolidated statements of operations.

In a case where our acquisition of a policy is not complete as of a reporting date, but we have nonetheless advanced direct costs and deposits for the acquisition, those costs and deposits are recorded as “other assets” on our balance sheet until the acquisition is complete and we have secured title to the policy. On December 31, 2017 and December 31, 2016, a total of $0 and $42,000, respectively, of our “other assets” comprised direct costs and deposits that we had advanced for life insurance policy acquisitions.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business and Summary of Significant Accounting Policies (cont.)

We also recognize realized gain (or loss) from a life insurance policy upon one of the two following events: (1) our receipt of notice or verified mortality of the insured; or (2) our sale of the policy (upon filing of change-of-ownership forms and receipt of payment). In the case of mortality, the gain (or loss) we recognize is the difference between the policy benefits and the carrying values of the policy once we determine that collection of the policy benefits is realizable and reasonably assured. In the case of a policy sale, the gain (or loss) we recognize is the difference between the sale price and the carrying value of the policy on the date we receive sale proceeds.

Other Assets — Life Epigenetics is engaged in various life insurance related businesses and activities related to its exclusive license for the "DNA Methylation Based Predictor of Mortality" technology for the life insurance industry. The cost of entering into this license agreement is included in "other assets."

Stock-Based Compensation — We measure and recognize compensation expense for all stock-based payments at fair value over the requisite service period. We use the Black-Scholes option pricing model to determine the weighted-average fair value of options. For restricted stock grants, fair value is determined as of the closing price of our common stock on the date of grant. Stock-based compensation expense is recorded in general and administrative expenses based on the classification of the employee or vendor. The determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards.

The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies. We have not historically issued any common stock dividends and do not expect to do so in the foreseeable future.

Deferred Financing and Issuance Costs — Loans advanced to us under our senior credit facility with LNV Corporation, as described in Note 6, are reported net of financing costs, including issuance costs, sales commissions and other direct expenses, which are amortized using the straight-line method over the term of the facility. We had no loans advanced to us under our senior credit facility with Autobahn Funding Company during the year ended December 31, 2017, as described in Note 5. The Series I and L Bonds, as respectively described in Notes 7 and 8, are reported net of financing costs, which are amortized using the interest method over the term of those borrowings. The Series A Convertible Preferred Stock (“Series A”), as described in Note 9, is reported net of financing costs (including the fair value of warrants issued), all of which were fully amortized using the interest method as of December 31, 2017. Selling and issuance costs of Redeemable Preferred Stock (“RPS”) and Series 2 Redeemable Preferred Stock (“RPS 2”), described in Notes 10 and 11, are netted against additional paid-in-capital, if any, and then against the outstanding balance of the preferred stock.

Earnings (loss) per Share — Basic earnings (loss) per share attributable to common shareholders are calculated using the weighted-average number of shares outstanding during the reported period. Diluted earnings (loss) per share are calculated based on the potential dilutive impact of our Series A, RPS, RPS 2, warrants and stock options. Due to our net loss attributable to common shareholders for the years ended December 31, 2017 and 2016, there are no dilutive securities.

Recently Issued Accounting Pronouncements — On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), as part of its simplification initiative. ASU 2015-03 changes the presentation of debt issuance costs by presenting those costs in the balance sheet as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense. We adopted ASU 2015-03 effective January 1, 2016, as required for public reporting entities.

On February 25, 2016, the FASB issued Accounting Standards Update 2016-02 *Leases* (“ASU 2016-02”). The new guidance is effective for fiscal years beginning after December 15, 2018. ASU 2016-02 provides more transparency and comparability in the financial statements of lessees by recognizing all leases with a term greater than twelve months on the balance sheet. Lessees will also be required to disclose key information about their leases. Early adoption is permitted. We are currently evaluating the impact of the adoption of this pronouncement and have not yet adopted ASU 2016-02 as of December 31, 2017.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business and Summary of Significant Accounting Policies (cont.)

In March 2016, the FASB issued Accounting Standards Update 2016-09 ("ASU 2016-09") to simplify the accounting for stock compensation related to the following items: income tax accounting, award classification, estimation of forfeitures, and cash flow presentation. The new guidance is effective for fiscal years beginning after December 15, 2016. We adopted ASU 2016-09 effective January 1, 2017. The impact of the adoption was not material to the financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), which amends ASC 230 *Statement of Cash Flows* to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance, to be applied retrospectively when adopted, requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. We will adopt ASU 2016-18 in the first quarter of 2018. The impact of the adoption is not expected to be material to the financial statements.

(2) Restrictions on Cash

Under the terms of our senior credit facility with LNV Corporation (discussed in Note 6), we are required to maintain collection account that is used to collect policy benefits from pledged policies, pay interest and other charges under the facility, and distribute funds to pay down the facility. The agents for the lenders authorize the disbursements from these accounts. At December 31, 2017 and December 31, 2016, there was a balance of $28,350,000 and $37,827,000, respectively, in these restricted cash accounts.

(3) Investment in Life Insurance Policies

Life insurance policies are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these policies are recorded as gain or loss on life insurance policies, net of premiums paid on those policies, in our consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions generally derived from reports obtained from widely accepted life expectancy providers, other than insured lives covered under small face amount policies (i.e., $1 million in face value benefits or less), assumptions relating to cost-of-insurance (premium) rates and other assumptions. The discount rate we apply incorporates current information about discount rates applied by other public reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance companies that issued the life insurance policies and management's estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate. As a result of management's analysis, discount rates of 10.45% and 10.96% were applied to our portfolio as of December 31, 2017 and December 31, 2016, respectively.

A summary of our policies, organized according to their estimated life expectancy dates as of the reporting date, is as follows:

	As of December 31, 2017			As of December 31, 2016		
Years Ending December 31,	Number of Policies	Estimated Fair Value	Face Value	Number of Policies	Estimated Fair Value	Face Value
2017	—	$—	$—	11	$14,837,000	$16,939,000
2018	8	4,398,000	4,689,000	23	30,830,000	42,564,000
2019	48	63,356,000	83,720,000	55	57,556,000	88,858,000
2020	87	79,342,000	127,373,000	93	85,414,000	159,814,000
2021	98	96,154,000	170,695,000	86	73,825,000	158,744,000
2022	90	85,877,000	181,120,000	66	56,909,000	147,222,000
2023	93	69,467,000	175,458,000	64	44,953,000	128,581,000
Thereafter	474	251,933,000	933,093,000	292	146,868,000	618,953,000
Totals	898	$650,527,000	$1,676,148,000	690	$511,192,000	$1,361,675,000

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investment in Life Insurance Policies (cont.)

We recognized life insurance benefits of $64,719,000 and $48,452,000 during 2017 and 2016, respectively, related to policies with a carrying value of $16,070,000 and $10,993,000, respectively, and as a result recorded realized gains of $48,649,000 and $37,459,000.

Reconciliation of gain on life insurance policies:

	Years Ended December 31, 2017	2016
Change in estimated probabilistic cash flows	$63,241,000	$46,515,000
Unrealized gain on acquisitions	31,019,000	38,205,000
Premiums and other annual fees	(53,296,000)	(40,239,000)
Change in discount rates[1]	14,931,000	3,188,000
Change in life expectancy evaluation[2]	(20,257,000)	(6,029,000)
Face value of matured policies	64,719,000	48,452,000
Fair value of matured policies	(38,243,000)	(22,290,000)
Gain on life insurance policies, net	$62,114,000	$67,802,000

(1) The discount rate applied to estimate the fair value of the portfolio of life insurance policies we own was 10.45% as of December 31, 2017, compared to 10.96% as of December 31, 2016. The carrying value of policies acquired during each quarterly reporting period is adjusted to current fair value using the fair value discount rate applied to the entire portfolio as of that reporting date.

(2) The change in fair value due to updating independent life expectancy estimates on certain life insurance policies in our portfolio.

We currently estimate that premium payments and servicing fees required to maintain our current portfolio of life insurance policies in force for the next five years, assuming no mortalities, are as follows:

Premiums	Servicing

Years Ending December 31,			Premiums and Servicing Fees
2018	$53,548,000	$1,102,000	$54,650,000
2019	61,125,000	1,102,000	62,227,000
2020	69,886,000	1,102,000	70,988,000
2021	79,081,000	1,102,000	80,183,000
2022	89,102,000	1,102,000	90,204,000
	$352,742,000	$5,510,000	$358,252,000

Management anticipates funding the majority of the premium payments estimated above with additional borrowing capacity, created as the premiums and servicing costs of pledged life insurance policies become due, under the amended and restated senior credit facility with LNV Corporation as described in Note 6. Management anticipates funding premiums and servicing costs of non-pledged life insurance policies from proceeds from the receipt of policy benefits from our portfolio of life insurance policies and net proceeds from our offering of L Bonds and RPS 2. The proceeds of these capital sources may also be used for the purchase, financing, and maintenance of additional life insurance policies as well as servicing the interest, dividends and principal on existing and future capital.

(4) Fair Value Definition and Hierarchy

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820") establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Assets and liabilities with readily available and actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Fair Value Definition and Hierarchy (cont.)

ASC 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the use of observable inputs whenever available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions about how market participants price an asset or liability based on the best available information. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether an instrument is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

Level 3 Valuation Process

The estimated fair value of our portfolio of life insurance policies is determined on a quarterly basis by our portfolio management committee, taking into consideration changes in discount rate assumptions, estimated premium payments and life expectancy estimate assumptions, as well as any changes in economic and other relevant conditions. The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance company that issued the life insurance policy and management's estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate.

These inputs are then used to estimate the discounted cash flows from the portfolio using the MAPS probabilistic portfolio price model, which estimates the cash flows using various mortality probabilities and scenarios. The valuation process includes a review by senior management as of each valuation date. We also engage MAPS to independently test the accuracy of the valuations using the inputs we provide on a quarterly basis. See Exhibit 99.1 filed herewith.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Fair Value Definition and Hierarchy (cont.)

The following table reconciles the beginning and ending fair value of our Level 3 investments in our portfolio of life insurance policies for the periods ended December 31, as follows:

	Years Ended December 31, 2017	2016
Beginning balance	$511,192,000	$356,650,000
Purchases	88,644,000	94,953,000
Maturities (initial cost basis)	(16,070,000)	(10,993,000)
Net change in fair value	66,761,000	70,582,000
Ending balance	$650,527,000	$511,192,000

In the past, we periodically updated the independent life expectancy estimates on the insured lives in our portfolio, other than insured lives covered under small face amount policies (i.e., $1 million in face value benefits or less), on a continuous rotating three-year cycle, and through that effort attempted to update life expectancies for approximately one-twelfth of our portfolio each quarter. Currently, however, the terms of our senior credit facility with LNV Corporation require us update the independent life expectancy estimates every two years beginning from the date of the amended facility.

The following table summarizes the inputs utilized in estimating the fair value of our portfolio of life insurance policies:

	As of December 31, 2017		As of December 31, 2016	
Weighted-average age of insured, years*	81.7		81.6	
Weighted-average life expectancy, months*	82.4		83.2	
Average face amount per policy	$ 1,867,000		$ 1,973,000	
Discount rate	10.45	%	10.96	%

(*) Weighted-average by face amount of policy benefits

Life expectancy estimates and market discount rates for a portfolio of life insurance policies are inherently uncertain and the effect of changes in estimates may be significant. For example, if the life expectancy estimates were increased or decreased by four and eight months on each outstanding policy, and the discount rates were increased or decreased by 1% and 2%, while all other variables were held constant, the fair value of our investment in life insurance policies would increase or decrease as summarized below:

Change in Fair Value of the Investment in Life Insurance Policies

	Change in life expectancy estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
December 31, 2017	$86,391,000	$42,886,000	$(42,481,000)	$(84,238,000)
December 31, 2016	$69,253,000	$34,601,000	$(33,846,000)	$(67,028,000)

	Change in discount rate			
	minus 2%	minus 1%	plus 1%	plus 2%
December 31, 2017	$68,117,000	$32,587,000	$(29,964,000)	$(57,583,000)
December 31, 2016	$53,764,000	$25,728,000	$(23,668,000)	$(45,491,000)

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Fair Value Definition and Hierarchy (cont.)

Other Fair Value Considerations

The carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short-term maturities and low credit risk. Using the income-based valuation approach, the estimated fair value of our L Bonds, having an aggregate face value of $461,427,000 as of December 31, 2017, is approximately $470,672,000 based on a weighted-average market interest rate of 6.70%. The carrying value of the senior credit facility with LNV Corporation reflects interest charged at 12-month LIBOR plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance policies collateralizing the debt. The overall rate reflects market, and the carrying value of the facility approximates fair value.

GWG MCA participates in the merchant cash advance industry by directly advancing sums to merchants and lending money, on a secured basis, to companies that advance sums to merchants. Each quarter, we review the carrying value of these cash advances, and determine if an impairment reserve is necessary. At December 31, 2017 one of our secured cash advances was impaired. Specifically, the secured loan to Nulook Capital LLC had an outstanding balance of $1,954,000 and a loan loss reserve of $1,908,000 at December 31, 2017. We deem fair value to be the estimated collectible value on each loan or advance made from GWG MCA. Where we estimate the collectible amount to be less than the outstanding balance, we record a reserve for the difference, referred to as an impairment charge. We recorded an impairment charge of $1,308,000 and $600,000 for the years ended December 31, 2017 and 2016, respectively.

The following table summarizes outstanding warrants as of December 31, 2017:

Month issued	Warrants issued	Fair value per share	Risk free rate	Volatility	Term
September 2014	16,000	$1.26	1.85%	17.03%	5 years
	16,000				

(5) Credit Facility — Autobahn Funding Company LLC

On September 12, 2017, we terminated our $105 million senior credit facility with Autobahn Funding Company LLC, the Credit and Security Agreement governing the facility as well as the related pledge agreement, pursuant to which our obligations under the facility were secured. We had paid off in full all obligations under the facility on September 14, 2016, and since that date, we have had no amounts outstanding under the facility.

The Credit and Security Agreement contained certain financial and non-financial covenants, and we were in compliance with these covenants during the year ended December 31, 2017 until the date of termination.

(6) Credit Facility — LNV Corporation

On September 27, 2017, we entered into an amended and restated senior credit facility with LNV Corporation as lender through our subsidiary GWG DLP Funding IV, LLC ("DLP IV"). The Amended and Restated Loan Agreement governing the facility makes available a total of up to $300,000,000 in credit with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due. Interest will accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no borrowing, equal to (A) the greater of 12-month LIBOR or the federal funds rate (as defined in the agreement) plus one-half of one percent per annum, plus (B) 7.50% per annum. The effective rate at December 31, 2017 was 9.31%. Interest payments are made on a quarterly basis.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Credit Facility — LNV Corporation (cont.)

As of December 31, 2017, approximately 82.6% of the total face value of our portfolio is pledged to LNV Corporation. The amount outstanding under this facility was $222,525,000 and $162,725,000 at December 31, 2017 and 2016, respectively. Obligations under the facility are secured by a security interest in DLP IV's assets, for the benefit of the lenders under the Amended and Restated Loan Agreement, through an arrangement under which Wells Fargo serves as securities intermediary. The life insurance policies owned by DLP IV do not serve as direct collateral for the obligations of GWG Holdings under the L Bonds. The difference between the amount outstanding and the carrying amount on our balance sheet is due to netting of unamortized debt issuance costs.

The Amended and Restated Loan Agreement does not require DLP IV to maintain a reserve account for future premiums.

The Amended and Restated Loan Agreement has certain financial and nonfinancial covenants, and we were in compliance with these covenants at December 31, 2017, and with the covenants in the original Loan Agreement at December 31, 2016.

(7) Series I Secured Notes

Series I Secured Notes were legal obligations of GWG Life and were privately offered and sold from August 2009 through June 2011. On September 8, 2017, we redeemed all outstanding Series I Secured Notes for an aggregate of $6,815,000.

The Series I Secured Notes were governed by an Intercreditor Agreement, a Third Amended and Restated Note Issuance and Security Agreement dated November 1, 2011, as amended, and a related Pledge Agreement. Upon the redemption of the Series I Secured Notes and the termination of all obligations outstanding thereunder, those agreements were terminated effective as of September 8, 2017.

(8) L Bonds

Our L Bonds are legal obligations of GWG Holdings. Obligations under the L Bonds are secured by the assets of GWG Holdings and by GWG Life, as a guarantor, and are subordinate to the obligations under our senior credit facility (see Note 6). We began publicly offering and selling L Bonds in January 2012 under the name “Renewable Secured Debentures”. These debt securities were re-named “L Bonds” in January 2015. L Bonds are publicly offered and sold on a continuous basis under a registration statement permitting us to sell up to $1.0 billion in principal amount of L Bonds. We are party to an indenture governing the L Bonds dated October 19, 2011, as amended (“Indenture”), under which GWG Holdings is obligor, GWG Life is guarantor, and Bank of Utah serves as indenture trustee. The Indenture contains certain financial and non-financial covenants, and we were in compliance with these covenants at December 31, 2017 and 2016.

On December 1, 2017, an additional public offering sold on a continuous basis of L Bonds permitting us to sell up to $1.0 billion in principal amount of L Bonds was declared effective. The new offering is a follow-on to the previous L Bond offering and contains the same terms and features.

The bonds have renewal features under which we may elect to permit their renewal, subject to the right of bondholders to elect to receive payment at maturity. Interest is payable monthly or annually depending on the election of the investor.

At December 31, 2017 and 2016, the weighted-average interest rate of our L Bonds was 7.29% and 7.23%, respectively. The principal amount of L Bonds outstanding was $461,427,000 and $387,067,000 at December 31, 2017 and 2016, respectively. The difference between the amount of outstanding L Bonds and the carrying amount on our balance sheets is due to netting of unamortized deferred issuance costs, cash receipts for new issuances and payments of redemptions in process. Amortization of deferred issuance costs was $6,940,000 and $7,099,000 in 2017 and 2016, respectively. Future expected amortization of deferred financing costs as of December 31, 2017 is $15,593,000 in total over the next seven years.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) L Bonds (cont.)

Future contractual maturities of L Bonds, and future amortization of their deferred financing costs, at December 31, 2017 are as follows:

Years Ending December 31,	Contractual Maturities	Amortization of Deferred Financing Costs
2018	$ 105,916,000	$ 1,182,000
2019	151,689,000	4,485,000
2020	78,402,000	3,297,000
2021	30,759,000	1,331,000
2022	40,018,000	2,137,000
Thereafter	54,643,000	3,161,000
	$ 461,427,000	$ 15,593,000

(9) Series A Convertible Preferred Stock

From July 2011 through September 2012, we privately offered shares of Series A of GWG Holdings at $7.50 per share. In the offering, we sold an aggregate of 3,278,000 shares for gross consideration of $24,582,000. Holders of Series A were entitled to cumulative dividends at the rate of 10% per annum, paid quarterly. The Series A Convertible Preferred Stock were only redeemable at our option.

Purchasers of Series A in our offering received warrants to purchase an aggregate of 416,000 shares of our common stock at an exercise price of $12.50 per share. As of December 31, 2017, all of these warrants have expired and none of them had been exercised.

On October 9, 2017 all shares of Series A were redeemed with a redemption payment equal to the sum of: (i) $8.25 per Series A share and (ii) all accrued but unpaid dividends.

(10) Redeemable Preferred Stock

On November 30, 2015, our public offering of up to 100,000 shares of Redeemable Preferred Stock ("RPS") at $1,000 per share was declared effective. Holders of RPS are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS are recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in-capital has been exhausted. Under certain circumstances described in the Certificate of Designation for the RPS, additional shares of RPS may be issued in lieu of cash dividends.

The RPS ranks senior to our common stock and pari passu with our RPS 2 and entitles its holders to a liquidation preference equal to the stated value per share (i.e., $1,000) plus accrued but unpaid dividends. Holders of RPS may presently convert their RPS into our common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date of conversion, subject to a minimum conversion price of $15.00 and in an aggregate amount limited to 15% of the stated value of RPS originally purchased by such holder from us and still held by such holder.

Holders of RPS may request that we redeem their RPS at a price equal to their stated value plus accrued but unpaid dividends, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS permits us sole discretion to grant or decline redemption requests. Subject to certain restrictions and conditions, we may also redeem shares of RPS without a redemption fee upon a holder's death, total disability or bankruptcy. In addition, after one year from the date of original issuance, we may, at our option, call and redeem shares of RPS at a price equal to their liquidation preference.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Redeemable Preferred Stock (cont.)

As of March 31, 2017, we closed the RPS offering to investors having sold 99,127 shares of RPS for an aggregate gross consideration of $99,127,000 and incurred approximately $7,019,000 of related selling costs.

At the time of its issuance, we determined that the RPS contained two embedded features: (1) optional redemption by the holder and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under Accounting Standards Codification 470 "*Debt*" ("ASC 470") we do not believe bifurcation of either the holder's redemption or conversion feature is appropriate.

(11) Series 2 Redeemable Preferred Stock

On February 14, 2017, our public offering up to 150,000 shares of Series 2 Redeemable Preferred Stock ("RPS 2") at $1,000 per share was declared effective. Holders of RPS 2 are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS 2 are recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in capital has been exhausted. Under certain circumstances described in the Certificate of Designation for the RPS 2, additional shares of RPS 2 may be issued in lieu of cash dividends.

The RPS 2 ranks senior to our common stock and pari passu with our RPS and entitles its holders to a liquidation preference equal to the stated value per share (i.e., $1,000) plus accrued but unpaid dividends. Holders of RPS 2 may, less an applicable conversion discount, if any, convert their RPS 2 into our common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date of conversion, subject to a minimum conversion price of $12.75 and in an aggregate amount limited to 10% of the stated value of RPS 2 originally purchased by such holder from us and still held by such holder.

Holders of RPS 2 may request that we redeem their RPS 2 shares at a price equal to their liquidation preference, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS 2 permits us sole discretion to grant or decline requests for redemption. Subject to certain restrictions and conditions, we may also redeem shares of RPS 2 without a redemption fee upon a holder's death, total disability or bankruptcy. In addition, we may, at our option, call and redeem shares of RPS 2 at a price equal to their liquidation preference (subject to a minimum redemption price, in the event of redemptions occurring less than one year after issuance, of 107% of the stated value of the shares being redeemed).

The selling broker dealer has agreed to sell the RPS 2 shares to qualified accounts with a selling commission of 6.0% of the gross proceeds from the RPS 2 shares sold by the selling broker dealer which will result in a sales price of $940 per RPS 2 share. The net proceeds to the Company from the sales to qualified accounts will not be affected by the reduction in the selling broker dealer's commissions.

As of December 31, 2017, we had sold 88,709 shares of RPS 2 for aggregate gross consideration of $88,709,000 and incurred approximately $6,142,000 of selling costs related to the sale of those shares.

At the time of its issuance, we determined that the RPS 2 contained two embedded features: (1) optional redemption by the holder; and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS 2 should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under ASC 470 we do not believe bifurcation of either the holder's redemption or conversion feature is appropriate.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Income Taxes

We had a current income tax liability of $0 as of both December 31, 2017 and 2016. The components of our income tax expense (benefit) and the reconciliation at the statutory federal tax rate to our actual income tax expense (benefit) for the years ended December 31, 2017 and 2016 consisted of the following:

	2017		2016	
Statutory federal income tax (benefit)	$(7,728,000)	34.0 %	$247,000	34.0%
State income taxes (benefit), net of federal benefit	(1,433,000)	6.3 %	56,000	7.8 %
Impact of change in enacted rate	2,605,000	(11.4)%	—	—
Change in valuation allowance	4,222,000	(18.6)%	—	—
Other permanent differences	237,000	(1.1)%	30,000	4.2 %
Total income tax expense (benefit)	$(2,097,000)	9.2 %	$333,000	46.0%

The tax effects of temporary differences that give rise to deferred income taxes were as follows:

	As of December 31, 2017	As of December 31, 2016
Deferred tax assets:		
Note Receivable from related party	$ 1,437,000	$ 2,023,000
Net operating loss carryforwards	9,995,000	10,781,000
Other assets	1,724,000	1,130,000
Subtotal	$ 13,156,000	$ 13,934,000
Valuation allowance	(6,386,000)	(2,164,000)
Deferred tax assets	$ 6,770,000	$ 11,770,000
Deferred tax liabilities:		
Investment in life insurance policies	$ (6,630,000)	$ (13,867,000)
Other liabilities	(140,000)	—
Net deferred tax asset/(liability)	$ —	$ (2,097,000)

At December 31, 2017 and 2016, we had federal net operating loss (“NOL”) carryforwards of $34,775,000 and $26,642,000, respectively, and aggregate state NOL carryforwards of approximately $34,749,000 and $26,616,000, respectively. The NOL carryforwards will begin to expire in 2031. Future utilization of NOL carryforwards is subject to limitations under Section 382 of the Internal Revenue Code. This section generally relates to a more than 50 percent change in ownership over a three-year period. We currently do not believe that any prior issuance of common stock has resulted in an ownership change under Section 382 through December 31, 2017.

We provide for a valuation allowance when it is not considered “more likely than not” that our deferred tax assets will be realized. As of December 31, 2017, based on all available evidence, we have provided a valuation allowance against our total net deferred tax asset of $6,386,000 due to uncertainty as to the realization of our deferred tax assets during the carryover periods. As of December 31, 2016, we had provided a valuation allowance of $2,164,000 against deferred tax assets related to the likelihood of recovering the tax benefit of a capital loss on a note receivable from a related entity and other capital losses.

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (“Tax Reform Bill”). The Tax Reform Bill changed existing United States tax law, including a reduction of the U.S. corporate income tax rate. The Company re-measured deferred taxes as of the date of enactment, resulting in a $2,605,000 reduction of net deferred income tax assets. The Company’s measurement of the income tax effects of the Tax Reform Bill for the year ended December 31, 2017 is reasonably estimated and, therefore, included in these financial statements in accordance with SEC Staff Accounting Bulletin No. 118.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Income Taxes (cont.)

ASC 740 requires the reporting of certain tax positions that do not meet a threshold of “more-likely-than-not” to be recorded as uncertain tax benefits. It is management’s responsibility to determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based upon the technical merits of the position. Management has reviewed all income tax positions taken or expected to be taken for all open years and has determined that the income tax positions are appropriately stated and supported. We do not anticipate that the total unrecognized tax benefits will significantly change prior to December 31, 2018.

Under our accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements are recognized as components of income tax expense. At December 31, 2017 and 2016, we recorded no accrued interest or penalties related to uncertain tax positions.

Our income tax returns for tax years ended December 31, 2014, 2015, 2016 and 2017, when filed, remain open to examination by the Internal Revenue Service and various state taxing jurisdictions. Our income tax return for tax year ended December 31, 2013 also remains open to examination by various state taxing jurisdictions.

(13) Common Stock

In September 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at $12.50 per share, and net proceeds of approximately $8.6 million after the payment of underwriting commissions, discounts and expense reimbursements. In connection with this offering, we listed our common stock on the Nasdaq Capital Market under the ticker symbol “GWGH.”

In conjunction with the initial public offering our Company issued warrants to purchase 16,000 shares of common stock at an exercise price of $15.63 per share. As of December 31, 2017, none of these warrants had been exercised. The remaining life of these warrants at December 31, 2017 was 1.8 years.

(14) Stock Incentive Plan

We adopted our 2013 Stock Incentive Plan in March 2013, as amended on June 1, 2015 and May 5, 2017. The Compensation Committee of our Board of Directors is responsible for the administration of the plan. Participants under the plan may be granted incentive stock options and non-statutory stock options; stock appreciation rights; stock awards; restricted stock; restricted stock units; and performance shares. Eligible participants include officers and employees of GWG Holdings and its subsidiaries, members of our Board of Directors, and consultants. Awards generally expire 10 years from the date of grant. As of December 31, 2017, 3,000,000 common stock options are authorized under the plan, of which 866,000 remain available for issuance.

Stock Options

Through December 31, 2017, we had outstanding stock options for 1,637,000 shares of common stock to employees, officers, and directors under the plan. Options for 857,000 shares have vested, and the remaining options are scheduled to vest over three years. The options were issued with an exercise price between $6.35 and $10.38 for those beneficially owning more than 10% of our common stock, and between $4.83 and $11.00 for all others, which is equal to the market price of the shares on the date of grant. The expected annualized volatility used in the Black-Scholes model valuation of options issued during the period ranged from 19.7% to 29.0%. The annual volatility rate is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies. As of December 31, 2017, stock options for 685,000 shares had been forfeited and stock options for 154,000 shares had been exercised.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Stock Incentive Plan (cont.)

Outstanding stock options:

	Vested	Un-vested	Total
Balance as of December 31, 2015	483,703	569,912	1,053,615
Granted during the year	22,500	608,350	630,850
Vested during the year	251,788	(251,788)	—
Forfeited during the year	(19,926)	(82,140)	(102,066)
Balance as of December 31, 2016	738,065	844,334	1,582,399
Granted during the year	61,099	367,500	428,599
Vested during the year	327,061	(327,061)	—
Exercised during the year	(126,498)	—	(126,498)
Forfeited during the year	(142,535)	(105,017)	(247,552)
Balance as of December 31, 2017	857,192	779,756	1,636,948

As of December 31, 2017, unrecognized compensation expense related to un-vested options is $1,096,000. We expect to recognize this compensation expense over the next three years ($577,000 in 2018, $397,000 in 2019, and $122,000 in 2020).

Stock Appreciation Rights (SARs)

As of December 31, 2017, we have issued SARs for 343,000 shares of the common stock to employees. The strike price of the SARs was between $7.84 and $10.38, which was equal to the market price of the common stock at the date of issuance. As of December 31, 2017, 189,000 of the SARs were vested. On December 31, 2017, the market price of GWG's common stock was $8.32.

Outstanding SARs:

	Vested	Un-vested	Total
Balance as of December 31, 2015	—	—	—

Granted during the year	106,608	133,127	239,735
Balance as of December 31, 2016	106,608	133,127	239,735
Granted during the year	13,001	91,986	104,987
Vested during the year	69,444	(69,444)	—
Forfeited during the year	—	(1,750)	(1,750)
Balance as of December 31, 2017	189,053	153,919	342,972

The liability for the SARs as of December 31, 2017, recorded within other accrued expenses, was $551,000. Employee compensation and benefits expense for SARs of $547,000 and $4,000 was recorded for the years ending December 31, 2017 and 2016, respectively.

Upon the exercise of SARs, the Company is obligated to make cash payment equal to the positive difference between the fair market value of the Company's common stock on the date of exercise less the fair market value of the common stock on the date of grant.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Stock Incentive Plan (cont.)

The following summarizes information concerning outstanding shares issuable under the 2013 Stock Incentive Plan:

	December 31, 2017			
	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years)	Weighted-Average Fair Value at Grant Date
Vested				
Stock Options	857,192	$ 8.05	6.17	$ 1.76
SARs	189,053	$ 8.54	5.86	$ 1.90
Total Vested	1,046,245	$ 8.14	6.11	$ 1.78
Unvested				
Stock Options	779,756	$ 9.21	7.50	$ 2.17
SARs	153,919	$ 9.16	6.24	$ 2.02
Total Unvested	933,675	$ 9.21	7.30	$ 2.15

	December 31, 2016			
	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years)	Weighted-Average Fair Value at Grant Date
Vested				
Stock Options	745,565	$ 8.41	7.00	$ 1.64
SARs	106,608	$ 8.35	6.81	$ 1.83
Total Vested	852,173	$ 8.40	6.98	$ 1.66
Unvested				
Stock Options	844,334	$ 8.72	7.04	$ 1.82
SARs	133,127	$ 8.41	6.82	$ 2.00
Total Unvested	977,461	$ 8.68	7.01	$ 1.84

(15) Other Expenses

The components of "Other expenses" in our consolidated statements of operations for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Contract labor	$550,000	$913,000
Marketing	2,226,000	1,702,000
Information technology	1,555,000	739,000
Servicing and facility fees	1,226,000	1,159,000
Travel and entertainment	1,047,000	1,092,000
Insurance and regulatory	1,591,000	1,729,000
Charitable contributions	462,000	280,000
General and administrative	2,514,000	2,463,000
Total other expenses	$11,171,000	$10,077,000

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Net Loss Attributable to Common Shareholders

We have outstanding RPS and RPS 2, as described in Notes 10 and 11. RPS and RPS 2 are anti-dilutive to our net loss attributable to common shareholders calculation for the years ended December 31, 2017 and December 31, 2016. Our vested and un-vested stock options are anti-dilutive at both December 31, 2017 and 2016.

(17) Commitments

We are party to an office lease with U.S. Bank National Association as the landlord. On September 1, 2015, we entered into an amendment to our original lease that expanded the leased space to 17,687 square feet and extended the term through October 2025. Under the amended lease we are obligated to pay base rent plus common area maintenance and a share of building operating costs. Rent expenses under this agreement were $442,000 and $415,000 for the years ended December 31, 2017 and 2016, respectively.

Minimum lease payments under the amended lease are as follows:

2018	$266,000
2019	275,000
2020	284,000
2021	293,000
2022	302,000
Thereafter	904,000
	$2,324,000

(18) Contingencies

Litigation — In the normal course of business, we are involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

(19) Guarantee of L Bonds

We are publicly offering and selling L Bonds under a registration statement declared effective by the SEC, as described in Note 8. Our obligations under the L Bonds are secured by substantially all the assets of GWG Holdings, a pledge of all our common stock held individually by our largest stockholders, and by a guarantee and corresponding grant of a security interest in substantially all the assets of GWG Life. As a guarantor, GWG Life has fully and unconditionally guaranteed the payment of principal and interest on the L Bonds. GWG Life's equity in DLP IV serve as collateral for our L Bond obligations. Substantially all of our life insurance policies are held by DLP IV and the Trust. The policies held by DLP IV are not collateral for the L Bond obligations as such policies are pledged to the senior credit facility with LNV Corporation.

The consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantor and issuer, because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of GWG Holdings or GWG Life, the guarantor subsidiary, to obtain funds from its subsidiaries by dividend or loan, except as described in these notes. A substantial majority of insurance policies we currently own are subject to a collateral arrangement with LNV Corporation described in Note 6. Under this arrangement, we are required to maintain a collection account that is used to collect policy benefits from pledged policies, pay interest and other charges under the facility, and distribute funds to pay down the facility.

The following represents consolidating financial information as of December 31, 2017 and December 31, 2016, with respect to the financial position, and for the years ended December 31, 2017 and 2016, with respect to results of operations and cash flows of GWG Holdings and its subsidiaries. The parent column presents the financial information of GWG Holdings, the primary obligor for the L Bonds. The guarantor subsidiary column presents the financial information of GWG Life, the guarantor subsidiary of the L Bonds, presenting its investment in DLP IV and the Trust under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries, including DLP IV and the Trust.

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Balance Sheets

December 31, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$111,952,829	$1,486,623	$982,039	$—	$114,421,491
Restricted cash	—	9,367,410	18,982,275	—	28,349,685
Investment in life insurance policies, at fair value	—	51,093,362	599,433,991	—	650,527,353
Secured MCA advances	—	—	1,661,774	—	1,661,774
Life insurance policy benefits receivable	—	1,500,000	15,158,761	—	16,658,761
Other assets	1,912,203	1,986,312	3,338,595	—	7,237,110
Investment in subsidiaries	480,659,789	415,235,212	—	(895,895,001)	—
TOTAL ASSETS	$594,524,821	$480,668,919	$639,557,435	$(895,895,001)	$818,856,174
LIABILITIES & STOCKHOLDERS' EQUITY					
LIABILITIES					
Senior Credit Facilities	$—	$—	$212,238,192	$—	$212,238,192
L Bonds	447,393,568	—	—	—	447,393,568
Accounts payable	1,434,623	844,899	4,114,917	—	6,394,439
Interest and dividends payable	10,296,584	—	5,130,925	—	15,427,509
Other accrued expenses	1,728,303	1,610,773	391,647	—	3,730,723
TOTAL LIABILITIES	460,853,078	2,455,672	221,875,681	—	685,184,431
STOCKHOLDERS' EQUITY					
Member capital	—	478,213,247	417,681,754	(895,895,001)	—
Redeemable preferred stock and Series 2 redeemable preferred stock	173,115,447	—	—	—	173,115,447
Common stock	5,813	—	—	—	5,813
Accumulated deficit	(39,449,517)	—	—	—	(39,449,517)

TOTAL STOCKHOLDERS' EQUITY	133,671,743	478,213,247	417,681,754	(895,895,001)	133,671,743
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$594,524,821	$480,668,919	$639,557,435	$(895,895,001)	$818,856,174

A-37

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Balance Sheets (continued)

December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>ASSETS</u>					
Cash and cash equivalents	$28,481,047	$49,360,952	$644,983	$—	$78,486,982
Restricted cash	—	2,117,649	35,708,947	—	37,826,596
Investment in life insurance policies, at fair value	—	41,277,896	469,914,458	—	511,192,354
Secured MCA advances	—	—	5,703,147	—	5,703,147
Life insurance policy benefits receivable	—	—	5,345,000	—	5,345,000
Other assets	3,854,233	2,056,822	810,640	(2,033,592)	4,688,103
Investment in subsidiaries	429,971,148	352,337,037	—	(782,308,185)	—
TOTAL ASSETS	$462,306,428	$447,150,356	$518,127,175	$(784,341,777)	$643,242,182
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>					
LIABILITIES					
Senior Credit Facilities	$—	$—	$156,064,818	$—	$156,064,818
Series I Secured Notes	—	16,404,836	—	—	16,404,836
L Bonds	381,312,587	—	—	—	381,312,587
Accounts payable	853,470	731,697	641,545	—	2,226,712
Interest and dividends payable	9,882,133	3,743,277	2,535,189	—	16,160,599
Other accrued expenses	862,369	544,032	2,303,952	(2,033,592)	1,676,761
Deferred taxes, net	2,097,371	—	—	—	2,097,371
TOTAL LIABILITIES	395,007,930	21,423,842	161,545,504	(2,033,592)	575,943,684
STOCKHOLDERS' EQUITY (DEFICIT)					
Member capital	—	425,726,514	356,581,671	(782,308,185)	—
Convertible preferred stock	19,701,133	—	—	—	19,701,133

Redeemable preferred stock	59,025,164	—	—	—	59,025,164
Common stock	5,980	—	—	—	5,980
Additional paid-in capital	7,383,515	—	—	—	7,383,515
Accumulated deficit	(18,817,294)	—	—	—	(18,817,294)
TOTAL STOCKHOLDERS' EQUITY	67,298,498	425,726,514	356,581,671	(782,308,185)	67,298,498
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$462,306,428	$447,150,356	$518,127,175	$(784,341,777)	$643,242,182

A-38

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Operations

For the year ended December 31, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$—	$6,979,773	$55,134,630	$—	$62,114,403
MCA income	—	—	554,341	—	554,341
Interest and other income	244,202	496,886	1,199,457	(475,371)	1,465,174
TOTAL REVENUE	244,202	7,476,659	56,888,428	(475,371)	64,133,918
EXPENSES					
Interest expense	37,754,984	930,837	15,813,944	(80,321)	54,419,444
Employee compensation and benefits	9,043,509	5,310,498	515,742	—	14,869,749
Legal and professional fees	1,937,714	962,778	2,195,151	—	5,095,643
Provision for MCA advances	—	—	1,308,000	—	1,308,000
Other expenses	7,058,209	2,715,374	1,792,143	(395,050)	11,170,676
TOTAL EXPENSES	55,794,416	9,919,487	21,624,980	(475,371)	86,863,512
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(55,550,214)	(2,442,828)	35,263,448	—	(22,729,594)
EQUITY IN INCOME OF SUBSIDIARIES	32,820,620	38,392,230	—	(71,212,850)	—
INCOME (LOSS) BEFORE INCOME TAXES	(22,729,594)	35,949,402	35,263,448	(71,212,850)	(22,729,594)
INCOME TAX BENEFIT	(2,097,371)	—	—	—	(2,097,371)
NET INCOME (LOSS)	(20,632,223)	35,949,402	35,263,448	(71,212,850)	(20,632,223)
Preferred stock dividends	12,702,341	—	—	—	12,702,341
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(33,334,564)	$35,949,402	$35,263,448	$(71,212,850)	$(33,334,564)

For the year ended December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$—	$379,405	$67,422,160	$—	$67,801,565
MCA income	—	—	929,303	—	929,303
Interest and other income	260,087	72,757	639,414	(225,792)	746,466
TOTAL REVENUE	260,087	452,162	68,990,877	(225,792)	69,477,334
EXPENSES					
Interest expense	32,149,577	2,311,819	8,094,353	(212,375)	42,343,374
Employee compensation and benefits	6,874,368	4,358,406	551,522	—	11,784,296
Legal and professional fees	2,107,053	1,628,408	211,915	—	3,947,376
Provision for MCA advances	—	—	600,000	—	600,000
Other expenses	5,822,621	2,871,318	1,396,454	(13,417)	10,076,976
TOTAL EXPENSES	46,953,619	11,169,951	10,854,244	(225,792)	68,752,022
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(46,693,532)	(10,717,789)	58,136,633	—	725,312
EQUITY IN INCOME OF SUBSIDIARIES	47,418,844	58,822,543	—	(106,241,387)	—
INCOME (LOSS) BEFORE INCOME TAXES	725,312	48,104,754	58,136,633	(106,241,387)	725,312
INCOME TAX EXPENSE	333,403	—	—	—	333,403
NET INCOME (LOSS)	391,909	48,104,754	58,136,633	(106,241,387)	391,909
Preferred stock dividends	3,537,287	—	—	—	3,537,287
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(3,145,378)	$48,104,754	$58,136,633	$(106,241,387)	$(3,145,378)

A-39

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Cash Flows

For the year ended December 31, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$(20,632,223)	$35,949,402	$35,263,448	$(71,212,850)	$(20,632,223)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(32,820,620)	(38,392,230)	—	71,212,850	—
Change in fair value of life insurance policies	—	(7,746,744)	(59,014,067)	—	(66,760,811)
Amortization of deferred financing and issuance costs	6,939,841	208,829	1,632,177	—	8,780,847
Provision for MCA advances	—	—	1,308,000	—	1,308,000
Deferred income taxes	(2,097,371)	—	—	—	(2,097,371)
Preferred stock issued in lieu of cash dividends	498,659	—	—	—	498,659
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	—	(1,500,000)	(9,813,761)	—	(11,313,761)
Other assets	(15,870,956)	(24,497,313)	(5,155,644)	42,435,842	(3,088,071)
Increase (decrease) in operating liabilities:					
Accounts payable	581,153	113,202	3,473,373	—	4,167,728
Interest and dividends payable	3,771,709	(3,743,277)	2,680,191	—	2,708,623
Other accrued expenses	1,702,625	1,066,743	(146,546)	—	2,622,822
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(57,927,183)	(38,541,388)	(29,772,829)	42,435,842	(83,805,558)
CASH FLOWS FROM INVESTING ACTIVITIES					

Investment in life insurance policies	—	(3,022,439)	(85,621,380)	—	(88,643,819)
Carrying value of matured life insurance policies	—	2,091,713	13,977,919	—	16,069,632
Proceeds from Secured MCA advances	—	—	2,762,784	—	2,762,784
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	(930,726)	(68,880,677)	—	(69,811,403)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on Senior Credit Facilities	—	—	59,799,649	—	59,799,649
Payments for issuance costs of senior debt	—	(1,076,118)	(3,434,270)	—	(4,510,388)
Payments for redemption of Series I Secured Notes	—	(16,613,667)	—	—	(16,613,667)
Proceeds from issuance of L Bonds	131,796,220	—	—	—	131,796,220
Payments for issuance costs of L Bonds	(10,896,925)	—	—	—	(10,896,925)
Payments for redemption of L Bonds	(60,848,460)	—	—	—	(60,848,460)
Proceeds from (increase in) restricted cash	—	(7,249,761)	16,726,672	—	9,476,911
Issuance of member capital	—	16,537,331	25,898,511	(42,435,842)	—
Redemption of common stock	(1,603,560)	—	—	—	(1,603,560)
Proceeds from issuance of preferred stock	127,279,847	—	—	—	127,279,847
Payments for issuance costs of preferred stock	(9,027,190)	—	—	—	(9,027,190)
Payments for redemption of preferred stock	(22,598,626)	—	—	—	(22,598,626)
Preferred stock dividends	(12,702,341)	—	—	—	(12,702,341)
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	141,398,965	(8,402,215)	98,990,562	(42,435,842)	189,551,470
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83,471,782	(47,874,329)	337,056	—	35,934,509
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	28,481,047	49,360,952	644,983	—	78,486,982
END OF THE PERIOD	$111,952,829	$1,486,623	$982,039	$—	$114,421,491

A-40

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Guarantee of L Bonds (cont.)

Consolidating Statements of Cash Flows (continued)

For the year ended December 31, 2016	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$391,909	$48,104,754	$58,136,633	$(106,241,387)	$391,909
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(47,418,844)	(58,822,543)	—	106,241,387	—
Change in fair value of life insurance policies	—	(900,808)	(69,681,575)	—	(70,582,383)
Amortization of deferred financing and issuance costs	7,720,065	(1,307,640)	2,032,827	—	8,445,252
Provision for MCA advances	—	—	600,000	—	600,000
Deferred income taxes	333,402	—	—	—	333,402
Preferred stock issued in lieu of cash dividends	689,742	—	—	—	689,742
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	—	—	(5,345,000)	—	(5,345,000)
Other assets	(114,758,710)	(43,964,379)	42,410,680	114,884,593	(1,427,816)
Increase (decrease) in operating liabilities:					
Accounts payable	572,483	574,481	(437,692)	—	709,272
Interest and dividends payable	2,494,085	420,259	2,256,824	—	5,171,168
Other accrued expenses	706,719	2,873,233	(8,579,395)	—	(4,999,443)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(149,269,149)	(53,022,643)	21,393,302	114,884,593	(66,013,897)
CASH FLOWS FROM INVESTING ACTIVITIES					

Investment in life insurance policies	—	—	(94,952,879)	—	(94,952,879)
Carrying value of matured life insurance policies	—	—	10,992,624	—	10,992,624
Investment in Secured MCA advances	—	—	(8,727,924)	—	(8,727,924)
Proceeds from Secured MCA advances	—	—	2,553,466	—	2,553,466
NET CASH FLOWS USED IN INVESTING ACTIVITIES	—	—	(90,134,713)	—	(90,134,713)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on Senior Credit Facilities	—	—	104,825,508	—	104,825,508
Payments for issuance costs of senior debt	—	—	(7,111,556)		(7,111,556)
Payments for redemption of Series I Secured Notes	—	(7,469,462)	—	—	(7,469,462)
Proceeds from issuance of L Bonds	153,874,402	—	—	—	153,874,402
Payments for issuance costs of L Bonds	(10,149,316)	—	—	—	(10,149,316)
Payments for redemption of L Bonds	(45,754,691)	—	—	—	(45,754,691)
Issuance of member capital	—	107,885,727	6,998,866	(114,884,593)	—
Increase in restricted cash	—	(15,392)	(35,469,305)	—	(35,484,697)
Issuance of common stock	244,185	—	—	—	244,185
Proceeds from issuance of preferred stock	57,040,946	—	71,555	—	57,112,501
Payments for issuance costs of preferred stock	(4,133,527)	—	(7,340)	—	(4,140,867)
Payments for redemption of preferred stock	(2,126,678)	—	(71,555)	—	(2,198,233)
Preferred stock dividends	(3,537,287)	—	—	—	(3,537,287)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	145,458,034	100,400,873	69,236,173	(114,884,593)	200,210,487
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,811,115)	47,378,230	494,762	—	44,061,877
CASH AND CASH EQUIVALENTS					
BEGINNING OF THE PERIOD	32,292,162	1,982,722	150,221	—	34,425,105
END OF THE PERIOD	$28,481,047	$49,360,952	$644,983	$—	$78,486,982

A-41

GWG HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(20) Concentration

We mostly purchase life insurance policies written by life insurance companies having investment-grade ratings by independent rating agencies. As a result, there may be certain concentrations of policies with life insurance companies. The following summarizes the face value of insurance policies with specific life insurance companies exceeding 10% of the total face value held by our portfolio.

	As of December 31,	
Life insurance company	2017	2016
John Hancock	15.57%	14.36%
AXA Equitable	11.88%	13.42%
Lincoln National	10.80%	11.22%

The following summarizes the number of insurance policies held in specific states exceeding 10% of the total face value held by us:

	As of December 31,	
State of residence	2017	2016
Florida	20.16%	19.42%
California	18.60%	20.72%

(21) Subsequent Events

Subsequent to December 31, 2017, thirteen policies covering thirteen individuals have matured. The combined insurance benefits of these policies were $10,704,000.

Subsequent to December 31, 2017, we have issued approximately $34,493,000 of L Bonds.

Subsequent to December 31, 2017, we have issued approximately $46,260,000 of RPS 2.

On January 12, 2018, we entered into a Master Exchange Agreement, pursuant to which we have agreed to issue an aggregate of up to 29.1 million shares of GWG common stock as partial consideration in exchange for our receipt of outstanding common units of The Beneficient Company Group, L.P., a Delaware limited partnership, we will receive from certain related trusts (“Seller Trusts”). Our common stock will be issued in the exchange to the Seller Trusts at a deemed purchase price of $10.00 per share. In addition to shares of our common stock, the aggregate consideration to the Seller Trusts will consist of up to $359 million of our L Bonds and payment of $150 million in cash. We may also issue and sell, in our sole discretion, a combination of common stock (at a purchase price of $10.00 per share) and L Bonds to MHT Financial SPV, L.L.C., a Delaware limited liability company, for an aggregate purchase price of $150 million in cash. Such combination will represent at least 10.9 million additional shares of common stock (including $41 million in L Bonds) but no more than 12.5 million additional shares of our common stock (including $25 million in L Bonds). The Exchange Transaction is expected to close in the second quarter of 2018, subject to the satisfaction of various closing conditions set forth in the Master Agreement.

Annex B

ITEM 1. FINANCIAL STATEMENTS

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
A S S E T S		
Cash and cash equivalents	$ 124,444,804	$ 114,421,491
Restricted cash	6,651,309	28,349,685
Investment in life insurance policies, at fair value	726,063,244	650,527,353
Life insurance policy benefits receivable	27,035,000	16,658,761
Other assets	10,841,567	8,898,884
TOTAL ASSETS	$ 895,035,924	$ 818,856,174
L I A B I L I T I E S & S T O C K H O L D E R S’ E Q U I T Y		
LIABILITIES		
Senior credit facility with LNV Corporation	$ 180,630,553	$ 212,238,192
L Bonds	518,788,942	447,393,568
Accounts payable	2,626,283	6,394,439
Interest and dividends payable	16,936,725	15,427,509
Other accrued expenses	4,031,070	3,730,723
TOTAL LIABILITIES	723,013,573	685,184,431
STOCKHOLDERS’ EQUITY		
REDEEMABLE PREFERRED STOCK (par value $0.001; shares authorized 100,000; shares outstanding 98,095 and 98,611; liquidation preference of $98,667,000 and $99,186,000 as of June 30, 2018 and December 31, 2017, respectively)	88,997,278	92,840,243
SERIES 2 REDEEMABLE PREFERRED STOCK (par value $0.001; shares authorized 150,000; shares outstanding 148,705 and 88,709; liquidation preference of $149,573,000 and $89,208,000 as of June 30, 2018 and December 31, 2017, respectively)	131,704,423	80,275,204
COMMON STOCK (par value $0.001: shares authorized 210,000,000; shares issued and outstanding 5,813,555 as of both June 30, 2018 and December 31, 2017)	5,813	5,813

Additional paid-in capital	-	-
Accumulated deficit	(48,685,163)	(39,449,517)
TOTAL STOCKHOLDERS' EQUITY	172,022,351	133,671,743
TOTAL LIABILITIES & EQUITY	$ 895,035,924	$ 818,856,174

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

B-1

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
REVENUE				
Gain on life insurance policies, net	$ 23,339,750	$ 11,296,266	$ 37,208,495	$ 30,696,086
Interest and other income	975,198	371,320	1,648,125	1,059,845
TOTAL REVENUE	24,314,948	11,667,586	38,856,620	31,755,931
EXPENSES				
Interest expense	17,147,850	12,246,025	33,211,187	25,490,241
Employee compensation and benefits	3,235,699	3,741,299	6,978,368	6,904,360
Legal and professional fees	1,155,728	1,330,589	2,329,357	2,276,937
Other expenses	2,832,777	3,761,098	5,573,354	6,541,420
TOTAL EXPENSES	24,372,054	21,079,011	48,092,266	41,212,958
INCOME (LOSS) BEFORE INCOME TAXES	(57,106)	(9,411,425)	(9,235,646)	(9,457,027)
INCOME TAX EXPENSE (BENEFIT)	-	(3,717,174)	-	(3,717,674)
NET INCOME (LOSS)	(57,106)	(5,694,251)	(9,235,646)	(5,739,353)
Preferred stock dividends	4,338,487	2,031,097	8,042,971	3,898,857
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (4,395,593)	$ (7,725,348)	$ (17,278,617)	$ (9,638,210)
NET INCOME (LOSS) PER SHARE				
Basic	$ (0.76)	$ (1.34)	$ (2.97)	$ (1.69)
Diluted	$ (0.76)	$ (1.34)	$ (2.97)	$ (1.69)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	5,813,555	5,777,724	5,813,555	5,710,909
Diluted	5,813,555	5,777,724	5,813,555	5,710,909

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$ (57,106)	$ (5,694,251)	$ (9,235,646)	$ (5,739,353)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Change in fair value of life insurance policies	(14,573,175)	(15,235,502)	(31,218,769)	(29,119,335)
Amortization of deferred financing and issuance costs	2,402,773	1,497,948	4,665,961	4,164,151
Deferred income taxes	-	(3,717,174)		(3,717,674)
(Increase) decrease in operating assets:				
Life insurance policy benefits receivable	(14,732,270)	2,005,000	(10,376,239)	(1,625,000)
Other assets	(1,732,765)	55,656	(1,809,206)	2,252,361
Increase (decrease) in operating liabilities:				
Accounts payable and other accrued expenses	542,090	1,400,844	(1,003,118)	2,947,050
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(28,150,453)	(19,687,479)	(48,977,017)	(30,837,800)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in life insurance policies	(30,248,939)	(19,432,338)	(55,548,764)	(42,121,671)
Carrying value of matured life insurance policies	6,148,349	3,014,834	11,231,643	5,383,808
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(24,100,590)	(16,417,504)	(44,317,121)	(36,737,863)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings on (repayments of) senior debt	(29,080,815)	(3,845,037)	(32,135,150)	(7,099,537)
Payments for issuance of senior debt	-	(1,076,118)	-	(1,190,412)
Payments for redemption of Series I Secured Notes	-	(4,348,372)	-	(9,798,261)

Proceeds from issuance of L Bonds	60,536,446	31,875,811	97,197,545	56,744,470
Payments for issuance and redemption of L Bonds	(13,710,821)	(15,025,566)	(25,956,269)	(39,197,163)
Issuance (repurchase) of common stock	-	4	-	(1,603,556)
Proceeds from issuance of preferred stock	14,372,959	34,301,747	56,238,128	61,480,941
Payments for issuance of preferred stock	(984,599)	(1,945,618)	(4,142,294)	(3,963,105)
Payments for redemption of preferred stock	(1,212,690)	(1,372,593)	(1,539,914)	(1,759,332)
Preferred stock dividends	(4,338,487)	(2,031,097)	(8,042,971)	(3,898,857)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	25,581,993	36,533,161	81,619,075	49,715,188
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,669,050)	428,178	(11,675,063)	(17,860,475)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH				
BEGINNING OF PERIOD	157,765,163	98,024,925	142,771,176	116,313,578
END OF PERIOD	$ 131,096,113	$ 98,453,103	$ 131,096,113	$ 98,453,103

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$ 13,776,000	$ 14,323,000	$ 27,251,000	$ 26,548,000
Premiums paid, including prepaid	$ 12,393,000	$ 11,646,000	$ 24,226,000	$ 22,606,000
Stock-based compensation	$ 47,000	$ 89,000	$ 260,000	$ 406,000
Payments for exercised stock options	$ -	100,000	37,000	100,000
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Options and stock appreciation rights issued	164,000	239,000	168,000	264,000
L Bonds:				
Conversion of accrued interest and commissions payable to principal	$ 219,000	$ 397,000	$ 562,000	$ 905,000
Conversion of L Bonds to redeemable preferred stock	$ 125,000	$ 657,000	$ 4,546,000	$ 1,788,000
Preferred Stock:				
Issuance of Series A Preferred Stock in lieu of cash dividends	$ -	$ 166,000	$ -	$ 337,000
Conversion of L Bonds to redeemable preferred stock	$ 125,000	$ 657,000	$ 4,546,000	$ 1,788,000
Investment in life insurance policies included in accounts payable	$ 990,000	$ 1,296,000	$ 990,000	$ 1,296,000

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

	Preferred Stock Shares	Preferred Stock	Common Shares	**Common Stock** (par)	Additional Paid-in Capital	Accumulated Deficit	Total Equity
Balance, December 31, 2016	2,699,704	$ 78,726,297	5,980,190	$ 5,980	$ 7,383,515	$ (18,817,294)	$ 67,29
Net income (loss)	-	-	-	-	-	(20,632,223)	(20,6
Issuance of common stock	-	-	33,810	33	320,970	-	321,0
Redemption of common stock	-	-	(200,445)	(200)	(1,603,360)	-	(1,60
Issuance of Series A preferred stock	71,237	498,659	-	-	-	-	498,6
Redemption of Series A preferred stock	(2,711,916)	(20,199,792)	-	-	-	-	(20,1
Issuance of redeemable preferred stock	129,622	122,933,106	-	-	(2,338,457)	-	120,5
Redemption of redeemable preferred stock	(1,328)	(1,327,776)	-	-	-	-	(1,32
Preferred stock	-	(8,925,807)	-	-	(3,776,534)	-	(12,7

dividends							
Stock-based compensation	-	1,410,760	-	-	13,866	-	1,424
Balance, December 31, 2017	187,319	$ 173,115,447	5,813,555	$ 5,813	$ -	$ (39,449,517)	$ 133,6
Net income (loss)	-	-	-	-	-	(9,235,646)	(9,23
Issuance of redeemable preferred stock	61,021	56,878,238	-	-	-	-	56,87
Redemption of redeemable preferred stock	(1,540)	(1,539,914)	-	-	-	-	(1,53
Preferred stock dividends	-	(8,042,971)	-	-		-	(8,04
Stock-based compensation	-	290,901	-	-	-	-	290,9
Balance, June 30, 2018	246,800	$ 220,701,701	5,813,555	$ 5,813	$ -	$ (48,685,163)	$ 172,0

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business — We are a financial services company committed to disrupting and transforming the life insurance and related industries. We built our business by creating opportunities for consumers to obtain significantly more value for their life insurance policies in a secondary market as compared to the traditional options offered by the insurance industry. We are enhancing and extending our activities in the life insurance industry by bringing step change technology through the commercialization of advanced epigenetic technology. At the same time, we are creating opportunities for investors to receive income and capital appreciation from our investment activities related to the life insurance industry.

GWG Holdings, Inc. and all of its subsidiaries are incorporated and organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in these footnotes to “we,” “us,” “our,” “our Company,” “GWG or the “Company” refer to GWG Holdings, Inc. and its subsidiaries collectively and on a consolidated basis. References to the full names of particular entities, such as “GWG Holdings, Inc.” or “GWG Holdings,” are meant to refer only to the particular entity referenced.

On August 25, 2016, GWG Holdings formed a wholly owned subsidiary, currently named Life Epigenetics Inc. (“Life Epigenetics”), to commercialize advanced epigenetic technology for the life insurance industry related to its exclusive license for “DNA Methylation Based Predictor of Mortality” technology.

Use of Estimates — The preparation of our condensed consolidated financial statements in conformity with the Generally Accepted Accounting Principles in the United States of America (GAAP) requires management to make significant estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements, as well as the reported amounts of revenue during the reporting period. We regularly evaluate estimates and assumptions, which are based on current facts, historical experience, management’s judgment, and various other factors that we believe to be reasonable under the circumstances. Our actual results may differ materially and adversely from our estimates. The most significant estimates with regard to these condensed consolidated financial statements relate to (1) the determination of the assumptions used in estimating the fair value of our investments in life insurance policies and (2) the value of our deferred tax assets and liabilities.

Cash and Cash Equivalents — We consider cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. We maintain our cash and cash equivalents with highly rated financial institutions. The balances in our bank accounts may exceed Federal Deposit Insurance Corporation limits. We periodically evaluate the risk of exceeding insured levels and may transfer funds as we deem appropriate.

Life Insurance Policies — Accounting Standards Codification 325-30, *Investments in Insurance Contracts* permits a reporting entity to account for its investments in life insurance policies using either the investment method or the fair value method. We elected to use the fair value method to account for our life insurance policies. We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain or loss in the current period, net of premiums paid, within gain on life insurance policies, net in our condensed consolidated statements of operations.

In a case where our acquisition of a policy is not complete as of a reporting date, but we have nonetheless advanced direct costs and deposits for the acquisition, those costs and deposits are recorded as other assets on our condensed consolidated balance sheets until the acquisition is complete and we have secured title to the policy. On both June 30, 2018 and December 31, 2017, a total of $0 of our other assets comprised direct costs and deposits that we had advanced for life insurance policy acquisitions.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We also recognize realized gain (or loss) from a life insurance policy upon one of the two following events: (1) our receipt of notice or verified mortality of the insured; or (2) our sale of the policy (upon filing of change-of-ownership forms and receipt of payment). In the case of mortality, the gain (or loss) we recognize is the difference between the policy benefits and the carrying value of the policy once we determine that collection of the policy benefits is realizable and reasonably assured. In the case of a policy sale, the gain (or loss) we recognize is the difference between the sale price and the carrying value of the policy on the date we receive sale proceeds.

Other Assets — Life Epigenetics is engaged in the development of intellectual property related to its exclusive license for the “DNA Methylation Based Predictor of Mortality” technology for the life insurance industry. The cost of entering into this license agreement is included in other assets on our condensed consolidated balance sheets.

To maintain the Company’s life insurance provider licenses in certain states, we are required to keep cash security deposits with the states’ licensing authorities. Security deposits included in other assets were $575,000 at both June 30, 2018 and December 31, 2017.

Stock-Based Compensation — We measure and recognize compensation expense for all stock-based payments at fair value on the grant date over the requisite service period. We use the Black-Scholes option pricing model to determine the weighted-average fair value of stock options. For restricted stock grants, fair value is determined as of the closing price of our common stock on the date of grant. Stock-based compensation expense is recorded in general and administrative expenses based on the classification of the employee or vendor. The determination of fair value of stock-based payment awards on the date of grant is affected by our stock price and a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards and the expected duration of the awards.

The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on the standard deviation of the average continuously compounded rate of return of five selected comparable companies. We have not paid common stock dividends.

Deferred Financing and Issuance Costs — Loans advanced to us under our senior credit facility with LNV Corporation, as described in Note 6, are reported net of financing costs, including issuance costs, sales commissions and other direct expenses, which are amortized using the straight-line method over the term of the facility. We had no loans advanced to us under our senior credit facility with Autobahn Funding Company during the year ended December 31, 2017 and this credit facility has since been terminated, as described in Note 5. The L Bonds, as described in Note 8, are reported net of financing costs, which are amortized using the interest method over the term of those borrowings. The Series I Secured Notes, as described in Note 7 have been redeemed, was reported net of financing costs, all of which were fully amortized using the interest method as of December 31, 2017. The Series A Convertible Preferred Stock ("Series A"), as described in Note 9, was reported net of financing costs (including the fair value of warrants issued), all of which were fully amortized using the interest method as of December 31, 2017. All shares of Series A have been redeemed and the obligations thereunder satisfied. Selling and issuance costs of Redeemable Preferred Stock ("RPS") and Series 2 Redeemable Preferred Stock ("RPS 2"), described in Notes 10 and 11, are netted against additional paid-in-capital, until depleted, and then against the outstanding balance of the preferred stock.

Earnings (loss) per Share — Basic earnings (loss) per share attributable to common shareholders are calculated using the weighted-average number of shares outstanding during the reported period. Diluted earnings (loss) per share are calculated based on the potential dilutive impact of our Series A, RPS, RPS 2, warrants and stock options. Due to our net loss attributable to common shareholders for the three and six months ended June 30, 2018, there are no dilutive securities.

Reclassification — Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Recently Issued Accounting Pronouncements — On February 25, 2016, the FASB issued Accounting Standards Update 2016-02 *Leases* ("ASU 2016-02"). The new guidance is effective for fiscal years beginning after December 15, 2018. ASU 2016-02 provides more transparency and comparability in the financial statements of lessees by recognizing all leases with a term greater than twelve months on the balance sheet. Lessees will also be required to disclose key information about their leases. Early adoption is permitted. We are currently evaluating the impact of the adoption of this pronouncement and have not yet adopted ASU 2016-02 as of June 30, 2018.

In March 2016, the FASB issued Accounting Standards Update 2016-09 ("ASU 2016-09") to simplify the accounting for stock compensation related to the following items: income tax accounting, award classification, estimation of forfeitures, and cash flow presentation. The new guidance is effective for fiscal years beginning after December 15, 2016. We adopted ASU 2016-09 effective January 1, 2017. The impact of the adoption was not material to the financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), which amends ASC 230 *Statement of Cash Flows* to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance, to be applied retrospectively when adopted, requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. We adopted ASU 2016-18 as of March 31, 2018. The impact of the adoption was not material to the financial statements.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(2) Restrictions on Cash

Under the terms of our senior credit facility with LNV Corporation (discussed in Note 6), we are required to maintain collection and payment accounts that are used to collect policy benefits from pledged policies, pay annual policy premiums, interest and other charges under the facility, and distribute funds to pay down the facility. The agents for the lender authorize the disbursements from these accounts. At June 30, 2018 and December 31, 2017, there was a balance of $1,937,000 and $19,967,000, respectively, in these collection and payment accounts.

To fund the Company's acquisition of life insurance policies, we are required to maintain escrow accounts. Distributions from these accounts are made according to life insurance policy purchase contracts. At June 30, 2018 and December 31, 2017, there was a balance of $4,714,000 and $8,383,000, respectively, in the Company's escrow accounts.

(3) Investment in Life Insurance Policies

Our investments in life insurance policies are valued based on unobservable inputs that are significant to their overall fair value. Changes in the fair value of these policies, net of premiums paid, are recorded in gain on life insurance policies, net in our condensed consolidated statements of operations. Fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions generally derived from reports obtained from widely accepted life expectancy providers (other than insured lives covered under small face amount policies – those with $1 million in face value benefits or less), assumptions relating to cost-of-insurance (premium) rates and other assumptions. The discount rate we apply incorporates current information about discount rates applied by other public reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance companies that issued the life insurance policies and management's estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate. As a result of management's analysis, a discount rate of 10.45% was applied to our portfolio as of both June 30, 2018 and December 31, 2017.

Portfolio Information

Our portfolio of life insurance policies, owned by our subsidiaries as of June 30, 2018, is summarized below:

Life Insurance Portfolio Summary

Total portfolio face value of policy benefits	$ 1,849,079,000	
Average face value per policy	$ 1,831,000	
Average face value per insured life	$ 2,052,000	
Average age of insured (yrs.)*	81.9	
Average life expectancy estimate (yrs.)*	6.8	
Total number of policies	1,010	
Number of unique lives	901	
Demographics	76% Males; 24% Females	
Number of smokers	41	
Largest policy as % of total portfolio face value	0.72	%
Average policy as % of total portfolio	0.10	%
Average annual premium as % of face value	3.11	%

* Averages presented in the table are weighted averages.

A summary of our policies, organized according to their estimated life expectancy dates as of the reporting date, is as follows:

	As of June 30, 2018			As of December 31, 2017		
Years Ending December 31,	Number of Policies	Estimated Fair Value	Face Value	Number of Policies	Estimated Fair Value	Face Value
2018	4	$ 3,328,000	$ 3,375,000	8	$ 4,398,000	$ 4,689,000
2019	35	44,532,000	55,472,000	48	63,356,000	83,720,000
2020	80	77,686,000	115,736,000	87	79,342,000	127,373,000
2021	97	104,685,000	176,820,000	98	96,154,000	170,695,000
2022	119	100,279,000	190,208,000	90	85,877,000	181,120,000
2023	102	84,874,000	205,340,000	93	69,467,000	175,458,000
2024	111	83,602,000	232,258,000	100	77,638,000	228,188,000
Thereafter	462	227,077,000	869,870,000	374	174,295,000	704,905,000
Totals	1,010	$ 726,063,000	$ 1,849,079,000	898	$ 650,527,000	$ 1,676,148,000

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We recognized life insurance benefits of $27,623,000 and $10,935,000 during the three months ended June 30, 2018 and 2017, respectively. The forgoing amounts pertained to policies with carrying values of $6,148,000 and $3,015,000, respectively, for which we recorded realized gains of $21,475,000 and $7,920,000, respectively. We recognized life insurance benefits of $42,127,000 and $29,910,000 during the six months ended June 30, 2018 and 2017, respectively. The forgoing amounts pertained to policies with carrying values of $11,232,000 and $5,384,000, for which we recorded realized gains of $30,895,000 and $24,526,000, respectively.

Reconciliation of gain on life insurance policies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Change in estimated probabilistic cash flows [1]	$ 17,409,000	$ 13,431,000	$ 36,414,000	$ 27,465,000
Unrealized gain on acquisitions [2]	5,795,000	8,044,000	12,769,000	18,646,000
Premiums and other annual fees	(12,708,000)	(11,859,000)	(24,906,000)	(22,949,000)
Change in discount rates [3]	-	4,143,000	-	4,143,000
Change in life expectancy evaluation [4]	(95,000)	(6,662,000)	(4,963,000)	(8,604,000)
Face value of matured policies	27,623,000	10,935,000	42,127,000	29,910,000
Fair value of matured policies	(14,684,000)	(6,736,000)	(24,233,000)	(17,915,000)
Gain on life insurance policies, net	$ 23,340,000	$ 11,296,000	$ 37,208,000	$ 30,696,000

(1) Change in fair value of expected future cash flows relating to our investment in life insurance policies that are not specifically attributable to changes in life expectancy, discount rate or policy maturity events.

(2) Gain resulting from fair value in excess of transaction price for policies acquired during the reporting period.

(3) The discount rate of 10.45% as of June 30, 2018 remained unchanged from both the prior quarter and year end dates. The discount rate of 10.81% as of June 30, 2017 reflected a decrease from the 10.96% rate used at both the

preceding quarter and year end dates.

(4) The change in fair value due to updating life expectancy estimates on certain life insurance policies in our portfolio.

We currently estimate that premium payments and servicing fees required to maintain our current portfolio of life insurance policies in force for the next five years, assuming no mortalities, are as follows:

Years Ending December 31,	Premiums	Servicing	**Premiums and Servicing Fees**
Six months ending December 31, 2018	$ 27,358,000	$ 677,000	$ 28,035,000
2019	63,323,000	1,355,000	64,678,000
2020	73,758,000	1,355,000	75,113,000
2021	84,700,000	1,355,000	86,055,000
2022	95,964,000	1,355,000	97,319,000
2023	107,289,000	1,355,000	108,644,000
	$ 452,392,000	$ 7,452,000	$ 459,844,000

Management anticipates funding the majority of the premium payments estimated above from cash flows realized from life insurance policy benefits, and to the extent necessary, with additional borrowing capacity, created as the premiums and servicing costs of pledged life insurance policies become due, under the amended and restated senior credit facility with LNV Corporation as described in Note 6, and the net proceeds from our offering of L Bonds as described in Note 8. Management anticipates funding premiums and servicing costs of non-pledged life insurance policies with cash flows realized from life insurance policy benefits from our portfolio of life insurance policies and net proceeds from our offering of L Bonds. The proceeds of these capital sources may also be used for the purchase, policy premiums and servicing costs of additional life insurance policies as well as for other working capital and financing expenditures including paying principal, interest and dividends.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(4) Fair Value Definition and Hierarchy

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“ASC 820”) establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Assets and liabilities with readily available and actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

ASC 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the use of observable inputs whenever available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions about how market participants price an asset or liability based on the best available information. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether an instrument is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

Level 3 Valuation Process

The estimated fair value of our portfolio of life insurance policies is determined on a quarterly basis by management taking into consideration a number of factors, including changes in discount rate assumptions, estimated premium payments and life expectancy estimate assumptions, as well as any changes in economic and other relevant conditions. The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, the discount rates observed in the life insurance secondary market, market interest rates, the estimated credit exposure to the insurance company that issued the life insurance policy and management’s estimate of the operational risk premium a purchaser would require to receive the future cash flows derived from our portfolio as a whole. Management has discretion regarding the combination of these and other factors when determining the discount rate.

These inputs are then used to estimate the discounted cash flows from the portfolio using the Model Actuarial Pricing System (“MAPS”) probabilistic and stochastic portfolio pricing model, which estimates the expected cash flows using various mortality probabilities and scenarios. The valuation process includes a review by senior management as of each quarterly valuation date. We also engage MAPS to independently test the accuracy of the valuations using the inputs we provide on a quarterly basis. A copy of a letter documenting the MAPS calculation is filed as Exhibit 99.1 to this report.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The following table reconciles the beginning and ending fair value of our Level 3 investments in our portfolio of life insurance policies for the periods ended June 30, as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	2017	2018	2017
Beginning balance	$ 687,389,000	$ 545,397,000	$ 650,527,000	$ 511,192,000
Purchases	30,249,000	19,432,000	55,549,000	42,122,000
Maturities (initial cost basis)	(6,148,000)	(3,015,000)	(11,232,000)	(5,384,000)
Net change in fair value	14,573,000	15,236,000	31,219,000	29,120,000
Ending balance	$ 726,063,000	$ 577,050,000	$ 726,063,000	$ 577,050,000

For life insurance policies with face amounts greater than $1 million and that are not pledged under any senior credit facility (approximately 18.4% of our portfolio by face amount of policy benefits) we attempt to update the life expectancy estimates on a continuous rotating three year cycle. For life insurance policies that are pledged under the LNV senior credit facility (approximately 73.1% of our portfolio by face amount of policy benefits) we are presently required to update the life expectancy estimates every two years beginning from the date of the amended facility. For the remaining small face insurance policies (i.e., a policy with $1 million in face value benefits or less) we may employ a range of methods and timeframes to update life expectancy estimates.

The following table summarizes the inputs utilized in estimating the fair value of our portfolio of life insurance policies:

	As of June 30, 2018	**As of December 31, 2017**
Weighted-average age of insured, years *	81.9	81.7
Weighted-average life expectancy, months *	82.0	82.4
Average face amount per policy	$ 1,831,000	$ 1,867,000
Discount rate	10.45 %	10.45 %

(*) Weighted-average by face amount of policy benefits

Life expectancy estimates and market discount rates for a portfolio of life insurance policies are inherently uncertain and the effect of changes in estimates may be significant. For example, if the life expectancy estimates were increased or decreased by four and eight months on each outstanding policy, and the discount rates were increased or decreased by 1% and 2%, with all other variables held constant, the fair value of our investment in life insurance policies would increase or decrease as summarized below:

Change in Fair Value of the Investment in Life Insurance Policies

	Change in Life Expectancy Estimates			
	minus 8 months	minus 4 months	plus 4 months	plus 8 months
June 30, 2018	$ 96,387,000	$ 47,837,000	$ (47,457,000)	$ (94,194,000)
December 31, 2017	$ 86,391,000	$ 42,886,000	$ (42,481,000)	$ (84,238,000)

	Change in Discount Rate			
	minus 2%	minus 1%	plus 1%	plus 2%
June 30, 2018	$ 75,047,000	$ 35,898,000	$ (33,001,000)	$ (63,412,000)
December 31, 2017	$ 68,117,000	$ 32,587,000	$ (29,964,000)	$ (57,583,000)

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Other Fair Value Considerations

The carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short-term maturities and low credit risk. Using the income-based valuation approach, the estimated fair value of our L Bonds, having an aggregate face value of $534,302,000 as of June 30, 2018, is approximately $541,680,000 based on a weighted-average market interest rate of 6.78%. The carrying value of the senior credit facility with LNV Corporation reflects interest charged at 12-month LIBOR plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance policies collateralizing the debt. The overall rate reflects market, and the carrying value of the facility approximates fair value.

GWG MCA participates in the merchant cash advance industry by directly advancing sums to merchants and lending money, on a secured basis, to companies that advance sums to merchants. Each quarter, we review the carrying value of these cash advances, and determine if an impairment reserve is necessary. At June 30, 2018 one of our secured cash advances was impaired. Specifically, the secured loan to Nulook Capital LLC had an outstanding balance of $1,914,000 and a loan loss reserve of $1,908,000 at June 30, 2018. We deem fair value to be the estimated collectible value on each loan or advance made from GWG MCA. Secured MCA advances, net of loan loss reserve, of $1,345,000 and $1,662,000 are included within other assets on our condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively. Where we estimate the collectible amount to be less than the outstanding balance, we record a reserve for the difference. Provision for MCA advances are recorded within other expenses on the statement of operations (see Note 15).

The following table summarizes outstanding common stock warrants (discussed in Note 13) as of June 30, 2018:

Month issued	Warrants issued	Fair value per share	**Risk free rate**	Volatility	Term
September 2014	16,000	$ 1.26	1.85 %	17.03 %	5 years
	16,000				

(5) Credit Facility — Autobahn Funding Company LLC

On September 12, 2017, we terminated our $105 million senior credit facility with Autobahn Funding Company LLC, the Credit and Security Agreement governing the facility as well as the related pledge agreement, pursuant to which our obligations under the facility were secured. We paid off in full all obligations under the facility on September 14, 2016, and since that date, we have had no amounts outstanding under the facility.

The Credit and Security Agreement contained certain financial and non-financial covenants, and we were in compliance with these covenants during the year ended December 31, 2017 until the date of termination.

(6) Credit Facility — LNV Corporation

On September 27, 2017, we entered into an amended and restated senior credit facility with LNV Corporation as lender through our subsidiary GWG DLP Funding IV, LLC ("DLP IV"). The Amended and Restated Loan Agreement governing the facility makes available a total of up to $300,000,000 in credit with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due. Interest will accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no borrowing, equal to (A) the greater of 12-month LIBOR or the federal funds rate (as defined in the agreement) plus one-half of one percent per annum, plus (B) 7.50% per annum. The effective rate at June 30, 2018 was 10.19%. Interest payments are made on a quarterly basis.

As of June 30, 2018, approximately 73.1% of the total face value of our portfolio is pledged to LNV Corporation. The amount outstanding under this facility was $190,389,000 and $222,525,000 at June 30, 2018 and December 31, 2017, respectively. Obligations under the facility are secured by a security interest in DLP IV's assets, for the benefit of the lenders under the Amended and Restated Loan Agreement, through an arrangement under which Wells Fargo serves as securities intermediary. The life insurance policies owned by DLP IV do not serve as direct collateral for the obligations of GWG Holdings under the L Bonds. The difference between the amount outstanding and the carrying amount on our condensed consolidated balance sheets is due to netting of unamortized debt issuance costs.

The Amended and Restated Loan Agreement has certain financial and nonfinancial covenants, and we were in compliance with these covenants at June 30, 2018 and December 31, 2017.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(7) Series I Secured Notes

Series I Secured Notes were legal obligations of GWG Life and were privately offered and sold from August 2009 through June 2011. On September 8, 2017, we redeemed all outstanding Series I Secured Notes for an aggregate of $6,815,000.

(8) L Bonds

Our L Bonds are legal obligations of GWG Holdings. Obligations under the L Bonds are secured by the assets of GWG Holdings and by GWG Life, as a guarantor, and are subordinate to the obligations under our senior credit facility (see Note 6). We began publicly offering and selling L Bonds in January 2012 under the name "Renewable Secured Debentures". These debt securities were re-named "L Bonds" in January 2015. L Bonds are publicly offered and sold on a continuous basis under a registration statement permitting us to sell up to $1.0 billion in principal amount of L Bonds through January 2018. On December 1, 2017, an additional public offering was declared effective permitting us to sell up to $1.0 billion in principal amount of L Bonds on a continuous basis. The new offering is a follow-on to the previous L Bond offering and contains the same terms and features. We are party to an indenture governing the L Bonds dated October 19, 2011, as amended ("Indenture"), under which GWG Holdings is obligor, GWG Life is guarantor, and Bank of Utah serves as indenture trustee. On March 27, 2018 GWG L Bond holders approved Amendment No.1 to the Amended and Restated Indenture with Bank of Utah. This amendment expands the definition of Total Coverage to include, without duplication, the value of all of our other assets as reflected on our most recently available balance sheet prepared in accordance with GAAP. The Indenture contains certain financial and non-financial covenants, and we were in compliance with these covenants at June 30, 2018 and December 31, 2017.

The bonds have renewal features under which we may elect to permit their renewal, subject to the right of bondholders to elect to receive payment at maturity. Interest is payable monthly or annually depending on the election of the investor.

At June 30, 2018 and December 31, 2017, the weighted-average interest rate of our L Bonds was 7.15% and 7.29%, respectively. The principal amount of L Bonds outstanding was $534,302,000 and $461,427,000 at June 30, 2018 and

December 31, 2017, respectively. The difference between the amount of outstanding L Bonds and the carrying amount on our condensed consolidated balance sheets is due to netting of unamortized deferred issuance costs, cash receipts for new issuances and payments of redemptions in process. Amortization of deferred issuance costs was $2,139,000 and $927,000 for the three months ended June 30, 2018 and 2017, respectively, and $4,138,000 and $2,856,000 for the six months ended June 30, 2018 and 2017, respectively. Future expected amortization of deferred financing costs as of June 30, 2018 is $18,060,000 in total over the next seven years.

Future contractual maturities of L Bonds, and future amortization of their deferred financing costs, at June 30, 2018 are as follows:

Years Ending December 31,	Contractual Maturities	Unamortized Deferred Financing Costs
Six months ending December 31, 2018	$ 60,612,000	$ 312,000
2019	150,617,000	3,024,000
2020	114,594,000	4,050,000
2021	65,293,000	2,860,000
2022	39,713,000	1,888,000
2023	36,818,000	1,984,000
Thereafter	66,655,000	3,942,000
	$ 534,302,000	$ 18,060,000

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(9) Series A Convertible Preferred Stock

From July 2011 through September 2012, we privately offered shares of Series A of GWG Holdings at $7.50 per share. In the offering, we sold an aggregate of 3,278,000 shares for gross consideration of $24,582,000. Holders of Series A were entitled to cumulative dividends at the rate of 10% per annum, paid quarterly. The Series A Convertible Preferred Stock were only redeemable at our option.

Purchasers of Series A in our offering received warrants to purchase an aggregate of 416,000 shares of our common stock at an exercise price of $12.50 per share. As of June 30, 2018 and December 31, 2017, all of these warrants have expired and none of them had been exercised.

On October 9, 2017 all shares of Series A were redeemed with a redemption payment equal to the sum of: (i) $8.25 per Series A share and (ii) all accrued but unpaid dividends.

(10) Redeemable Preferred Stock

On November 30, 2015, our public offering of up to 100,000 shares of RPS at $1,000 per share was declared effective. Holders of RPS are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS are recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in-capital has been exhausted. Under certain circumstances described in the Certificate of Designation for the RPS, additional shares of RPS may be issued in lieu of cash dividends.

The RPS ranks senior to our common stock and pari passu with our RPS 2 and entitles its holders to a liquidation preference equal to the stated value per share (i.e., $1,000) plus accrued but unpaid dividends. Holders of RPS may presently convert their RPS into our common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date of conversion, subject to a minimum conversion price of $15.00 and in an aggregate amount limited to 15% of the stated value of RPS originally purchased by such holder from us and still held by such holder.

Holders of RPS may request that we redeem their RPS at a price equal to their stated value plus accrued but unpaid dividends, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS permits us in our sole discretion to grant or decline redemption requests. Subject to certain restrictions and conditions, we may also redeem shares of RPS without a redemption fee upon a holder's death, total disability or bankruptcy. In addition, after one year from the date of original issuance, we may, at our option, call and redeem shares of RPS at a price equal to their liquidation preference.

In March 2017, we closed the RPS offering to additional investors having sold 99,127 shares of RPS for an aggregate gross consideration of $99,127,000 and incurred approximately $7,019,000 of related selling costs.

At the time of its issuance, we determined that the RPS contained two embedded features: (1) optional redemption by the holder and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under Accounting Standards Codification 470 "*Debt*" ("ASC 470") we do not believe bifurcation of either the holder's redemption or conversion feature is appropriate.

(11) Series 2 Redeemable Preferred Stock

On February 14, 2017, our public offering of up to 150,000 shares of RPS 2 at $1,000 per share was declared effective. Holders of RPS 2 are entitled to cumulative dividends at the rate of 7% per annum, paid monthly. Dividends on the RPS 2 are recorded as a reduction to additional paid-in capital, if any, then to the outstanding balance of the preferred stock if additional paid-in capital has been exhausted. Under certain circumstances described in the Certificate of Designation for the RPS 2, additional shares of RPS 2 may be issued in lieu of cash dividends.

The RPS 2 ranks senior to our common stock and pari passu with our RPS and entitles its holders to a liquidation preference equal to the stated value per share (i.e., $1,000) plus accrued but unpaid dividends. Holders of RPS 2 may, less an applicable conversion discount, if any, convert their RPS 2 into our common stock at a conversion price equal to the volume-weighted average price of our common stock for the 20 trading days immediately prior to the date of conversion, subject to a minimum conversion price of $12.75 and in an aggregate amount limited to 10% of the stated value of RPS 2 originally purchased by such holder from us and still held by such holder.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Holders of RPS 2 may request that we redeem their RPS 2 shares at a price equal to their liquidation preference, less an applicable redemption fee, if any. Nevertheless, the Certificate of Designation for RPS 2 permits us in our sole discretion to grant or decline requests for redemption. Subject to certain restrictions and conditions, we may also redeem shares of RPS 2 without a redemption fee upon a holder’s death, total disability or bankruptcy. In addition, we may, at our option, call and redeem shares of RPS 2 at a price equal to their liquidation preference (subject to a minimum redemption price, in the event of redemptions occurring less than one year after issuance, of 107% of the stated value of the shares being redeemed).

In April 2018, we closed the RPS 2 offering to additional investors having sold 149,979 shares of RPS 2 for an aggregate gross consideration of $149,979,000 and incurred approximately $10,284,000 of related selling costs.

At the time of its issuance, we determined that the RPS 2 contained two embedded features: (1) optional redemption by the holder; and (2) optional conversion by the holder. We determined that each of the embedded features met the definition of a derivative and that the RPS 2 should be considered an equity host for the purposes of assessing the embedded derivatives for potential bifurcation. Based on our assessment under ASC 470 we do not believe bifurcation of either the holder’s redemption or conversion feature is appropriate.

(12) Income Taxes

We had a current income tax liability of $0 as of both June 30, 2018 and December 31, 2017. The components of our income tax expense (benefit) and the reconciliation at the statutory federal tax rate to our actual income tax expense (benefit) for the three and six months ended June 30, 2018 and 2017 consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Statutory federal income tax (benefit)	$ (12,000)	$ (3,200,000)	$ (1,939,000)	$ (3,215,000)
State income taxes (benefit), net of federal benefit	10,000	(607,000)	(692,000)	(609,000)

Change in valuation allowance	(36,000)	-	2,568,000	-
Other permanent differences	38,000	90,000	63,000	106,000
Total income tax expense (benefit)	$ -	$ (3,717,000)	$ -	$ (3,718,000)

The tax effects of temporary differences that give rise to deferred income taxes were as follows:

	As of June 30, 2018	As of December 31, 2017
Deferred tax assets:		
Note receivable from related party	$ 1,437,000	$ 1,437,000
Net operating loss carryforwards	9,787,000	9,995,000
Other assets	1,487,000	1,724,000
Subtotal	12,711,000	13,156,000
Valuation allowance	(8,954,000)	(6,386,000)
Deferred tax assets	3,757,000	6,770,000
Deferred tax liabilities:		
Investment in life insurance policies	(3,651,000)	(6,630,000)
Other liabilities	(106,000)	(140,000)
Net deferred tax asset(liability)	$ -	$ -

B-15

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

At June 30, 2018 and December 31, 2017, we had federal net operating loss (“NOL”) carryforwards of $34,052,000 and $34,775,000, respectively. The NOL carryforwards will begin to expire in 2031. Future utilization of NOL carryforwards is subject to limitations under Section 382 of the Internal Revenue Code. This section generally relates to a more than 50 percent change in ownership over a three-year period. We currently do not believe that any prior issuance of common stock has resulted in an ownership change under Section 382 through June 30, 2018.

We provide for a valuation allowance when it is not considered “more likely than not” that our deferred tax assets will be realized. As of June 30, 2018, based on all available evidence, we have provided a valuation allowance against our total net deferred tax asset of $8,954,000 due to uncertainty as to the realization of our deferred tax assets during the carryforward periods.

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (“Tax Reform Bill”). The Tax Reform Bill changed existing United States tax law, including a reduction of the U.S. corporate income tax rate. The Company re-measured deferred taxes as of the date of enactment, reflecting those changes within deferred tax assets as of December 31, 2017.

ASC 740 requires the reporting of certain tax positions that do not meet a threshold of “more-likely-than-not” to be recorded as uncertain tax benefits. It is management’s responsibility to determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based upon the technical merits of the position. Management has reviewed all income tax positions taken or expected to be taken for all open years and has determined that the income tax positions are appropriately stated and supported. We do not anticipate that the total unrecognized tax benefits will significantly change prior to December 31, 2018.

Under our accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements are recognized as components of income tax expense. At June 30, 2018 and December 31, 2017, we recorded no accrued interest or penalties related to uncertain tax positions.

Our income tax returns for tax years ended December 31, 2014, 2015, 2016 and 2017, when filed, remain open to examination by the Internal Revenue Service and various state taxing jurisdictions. Our income tax return for tax year ended December 31, 2013 also remains open to examination by various state taxing jurisdictions.

(13) Common Stock

In September 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at $12.50 per share, and net proceeds of approximately $8.6 million after the payment of underwriting commissions, discounts and expense reimbursements. In connection with this offering, we listed our common stock on the Nasdaq Capital Market under the ticker symbol “GWGH.”

In conjunction with the initial public offering our Company issued warrants to purchase 16,000 shares of common stock at an exercise price of $15.63 per share. As of June 30, 2018, none of these warrants had been exercised. The remaining life of these warrants at June 30, 2018 was 1.3 years.

(14) Stock Incentive Plan

We adopted our 2013 Stock Incentive Plan in March 2013, as amended on June 1, 2015 and May 5, 2017. The Compensation Committee of our Board of Directors is responsible for the administration of the plan. Participants under the plan may be granted incentive stock options and non-statutory stock options; stock appreciation rights; stock awards; restricted stock; restricted stock units; and performance shares. Eligible participants include officers and employees of GWG Holdings and its subsidiaries, members of our Board of Directors, and consultants. Awards generally expire 10 years from the date of grant. As of June 30, 2018, 6,000,000 common stock options are authorized under the plan, of which 3,735,564 remain available for issuance.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Stock Options

As of June 30, 2018, we had outstanding stock options for 1,679,000 shares of common stock to employees, officers, and directors under the plan. Options for 1,061,000 shares have vested, and the remaining options are scheduled to vest over three years. The options were issued with an exercise price between $6.35 and $10.38 for those beneficially owning more than 10% of our common stock, and between $4.83 and $11.00 for all others, which is equal to the market price of the shares on the date of grant. The expected annualized volatility used in the Black-Scholes model valuation of options issued during the three months ended June 30, 2018 was 20.7%. The annual volatility rate is based on the standard deviation of the average continuously compounded daily changes of stock price of five selected comparable companies. As of June 30, 2018, stock options for 723,000 shares had been forfeited and stock options for 178,000 shares had been exercised.

Outstanding stock options:

	Vested	Un-vested	Total
Balance as of December 31, 2016	738,065	844,334	1,582,399
Granted during the year	61,099	367,500	428,599
Vested during the year	327,061	(327,061)	-
Exercised during the year	(126,498)	-	(126,498)
Forfeited during the year	(142,535)	(105,017)	(247,552)
Balance as of December 31, 2017	857,192	779,756	1,636,948
Granted year-to-date	4,850	99,200	104,050
Vested year-to-date	235,424	(235,424)	-
Exercised year-to-date	(23,834)	-	(23,834)
Forfeited year-to-date	(12,582)	(25,501)	(38,083)
Balance as of June 30, 2018	1,061,050	618,031	1,679,081

As of June 30, 2018, unrecognized compensation expense related to un-vested options is $933,000. We expect to recognize this compensation expense over the remaining vesting period ($304,000 in 2018, $426,000 in 2019, $183,000 in 2020, and $20,000 in 2021).

Stock Appreciation Rights (SARs)

As of June 30, 2018, we had outstanding SARs for 407,000 shares of the common stock to employees. The strike price of the SARs was between $7.84 and $10.38, which was equal to the market price of the common stock at the date of issuance. As of June 30, 2018, 215,000 of the SARs were vested. On June 30, 2018, the market price of GWG's common stock was $7.68.

Outstanding SARs:

	Vested	Un-vested	Total
Balance as of December 31, 2016	106,608	133,127	239,735
Granted during the year	13,001	91,986	104,987
Vested during the year	69,444	(69,444)	-
Forfeited during the year	-	(1,750)	(1,750)
Balance as of December 31, 2017	189,053	153,919	342,972
Granted year-to-date	-	64,050	64,050
Vested year-to-date	25,699	(25,699)	-
Forfeited year-to-date	-	-	-
Balance as of June 30, 2018	214,752	192,270	407,022

The liability for the SARs as of June 30, 2018 and December 31, 2017 was $483,000 and $551,000, respectively, and was recorded within other accrued expenses on the condensed consolidated balance sheets. Employee compensation and benefits expense for SARs of ($118,000) and $23,000 was recorded for the three months ended June 30, 2018 and 2017, respectively, and ($68,000) and $312,000 was recorded for the six months ended June 30, 2018 and 2017, respectively.

Upon the exercise of SARs, the Company is obligated to make cash payment equal to the positive difference between the fair market value of the Company's common stock on the date of exercise less the fair market value of the common stock on the date of grant.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The following summarizes information concerning outstanding options and SARs issued under the 2013 Stock Incentive Plan:

	June 30, 2018			
	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years)	Fair Value at Grant Date
Vested				
Stock Options	1,061,050	$ 8.21	5.90	$ 1.82
SARs	214,752	$ 8.61	5.41	$ 1.89
Total Vested	1,275,802	$ 8.28	5.81	$ 1.83
Unvested				
Stock Options	618,031	$ 9.22	7.18	$ 2.21
SARs	192,270	$ 8.93	6.11	$ 2.10
Total Unvested	810,301	$ 9.16	6.93	$ 2.18

	December 31, 2017			
	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years)	Fair Value at Grant Date
Vested				
Stock Options	857,192	$ 8.05	6.17	$ 1.76
SARs	189,053	$ 8.54	5.86	$ 1.90
Total Vested	1,046,245	$ 8.14	6.11	$ 1.78
Unvested				
Stock Options	779,756	$ 9.21	7.50	$ 2.17
SARs	153,919	$ 9.16	6.24	$ 2.02
Total Unvested	933,675	$ 9.21	7.30	$ 2.15

(15) Other Expenses

The components of other expenses in our condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Contract Labor	$ 305,000	$ 87,000	$ 605,000	$ 181,000
Marketing	509,000	649,000	930,000	1,201,000
Information Technology	366,000	351,000	866,000	682,000
Servicing and Facility Fees	468,000	405,000	862,000	686,000
Travel and Entertainment	230,000	283,000	446,000	518,000
Insurance and Regulatory	352,000	393,000	719,000	718,000
Charitable Contributions	-	89,000	-	420,000
Provision for MCA Advances	94,000	878,000	94,000	878,000
General and Administrative	509,000	626,000	1,051,000	1,257,000
Total Other Expenses	$ 2,833,000	$ 3,761,000	$ 5,573,000	$ 6,541,000

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(16) Net Loss Attributable to Common Shareholders

We have outstanding RPS and RPS 2, as described in Notes 10 and 11. RPS and RPS 2 are anti-dilutive to our net loss attributable to common shareholders calculation for both the three and six months ended June 30, 2018 and 2017. Our vested and un-vested stock options are anti-dilutive for both the three and six months ended June 30, 2018 and 2017.

(17) Commitments

We are party to an office lease with U.S. Bank National Association as the landlord. On September 1, 2015, we entered into an amendment to our original lease that expanded the leased space to 17,687 square feet and extended the term through October 2025. Under the amended lease we are obligated to pay base rent plus common area maintenance and a share of building operating costs. Rent expenses under this agreement were $110,000 during both three months ended June 30, 2018 and 2017 and $215,000 and $223,000 during the six months ended June 30, 2018 and 2017, respectively.

Minimum lease payments under the amended lease are as follows:

Six months ending December 31, 2018	$ 133,000
2019	275,000
2020	284,000
2021	293,000
2022	302,000
2023	311,000
Thereafter	593,000
	$ 2,191,000

(18) Contingencies

Litigation — In the normal course of business, we are involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

(19) Guarantee of L Bonds

We are publicly offering and selling L Bonds under a registration statement declared effective by the SEC, as described in Note 8. Our obligations under the L Bonds are secured by substantially all the assets of GWG Holdings, a pledge of all our common stock held individually by our largest stockholders, and by a guarantee and corresponding grant of a security interest in substantially all the assets of GWG Life. As a guarantor, GWG Life has fully and unconditionally guaranteed the payment of principal and interest on the L Bonds. GWG Life's equity in DLP IV serve as collateral for our L Bond obligations. Substantially all of our life insurance policies are held by DLP IV or GWG Life Trust ("the Trust"). The policies held by DLP IV are not collateral for the L Bond obligations as such policies are pledged to the senior credit facility with LNV Corporation.

The consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantor and issuer, because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of GWG Holdings or GWG Life, the guarantor subsidiary, to obtain funds from its subsidiaries by dividend or loan, except as described in these notes. A substantial majority of insurance policies we currently own are subject to a collateral arrangement with LNV Corporation described in Note 6. Under this arrangement, we are required to maintain collection and payment accounts that are used to collect policy benefits from pledged policies, pay interest and other charges under the facility, and distribute funds to pay down the facility.

The following represents condensed consolidating financial information as of June 30, 2018 and December 31, 2017, with respect to the financial position, and as of June 30, 2018 and 2017, with respect to results of operations and cash flows of GWG Holdings and its subsidiaries. The parent column presents the financial information of GWG Holdings, the primary obligor for the L Bonds. The guarantor subsidiary column presents the financial information of GWG Life, the guarantor subsidiary of the L Bonds, presenting its investment in DLP IV and the Trust under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries, including DLP IV and the Trust.

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Balance Sheets

June 30, 2018	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<u>A S S E T S</u>					
Cash and cash equivalents	$ 123,017,408	$ 546,177	$ 881,219	$ -	$ 124,444,804
Restricted cash	-	5,648,925	1,002,384	-	6,651,309
Investment in life insurance policies, at fair value	-	70,892,773	655,170,471	-	726,063,244
Life insurance policy benefits receivable	-	800,000	26,235,000	-	27,035,000
Other assets	4,307,833	1,921,184	4,612,550	-	10,841,567
Investment in subsidiaries	577,018,061	498,224,110	-	(1,075,242,171)	-
TOTAL ASSETS	$ 704,343,302	$ 578,033,169	$ 687,901,624	$ (1,075,242,171)	$ 895,035,924
L I A B I L I T I E S & S T O C K H O L D E R S’ E Q U I T Y					
LIABILITIES					
Senior credit facility with LNV Corporation	$ -	$ -	$ 180,630,553	$ -	$ 180,630,553
L Bonds	518,788,942	-	-	-	518,788,942
Accounts payable	580,162	738,894	1,307,227	-	2,626,283
Interest and dividends payable	11,449,184	-	5,487,541	-	16,936,725
Other accrued expenses	1,502,663	1,736,033	792,374	-	4,031,070
TOTAL LIABILITIES	532,320,951	2,474,927	188,217,695	-	723,013,573

STOCKHOLDERS' EQUITY					
Member capital	-	575,558,242	499,683,929	(1,075,242,171)	-
Redeemable preferred stock and Series 2 redeemable preferred stock	220,701,701	-	-	-	220,701,701
Common stock	5,813	-	-	-	5,813
Accumulated deficit	(48,685,163)	-	-	-	(48,685,163)
TOTAL STOCKHOLDERS' EQUITY	172,022,351	575,558,242	499,683,929	(1,075,242,171)	172,022,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 704,343,302	$ 578,033,169	$ 687,901,624	$ (1,075,242,171)	$ 895,035,924

B-20

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Balance Sheets (continued)

December 31, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
A S S E T S					
Cash and cash equivalents	$ 111,952,829	$ 1,486,623	$ 982,039	$ -	$ 114,421,491
Restricted cash	-	9,367,410	18,982,275	-	28,349,685
Investment in life insurance policies, at fair value	-	51,093,362	599,433,991	-	650,527,353
Life insurance policy benefits receivable	-	1,500,000	15,158,761	-	16,658,761
Other assets	1,912,203	1,986,312	5,000,369	-	8,898,884
Investment in subsidiaries	480,659,789	415,235,212	-	(895,895,001)	-
TOTAL ASSETS	$ 594,524,821	$ 480,668,919	$ 639,557,435	$ (895,895,001)	$ 818,856,174
L I A B I L I T I E S & S T O C K H O L D E R S' E Q U I T Y					
LIABILITIES					
Senior credit facility with LNV Corporation	$ -	$ -	$ 212,238,192	$ -	$ 212,238,192
L Bonds	447,393,568	-	-	-	447,393,568
Accounts payable	1,434,623	844,899	4,114,917	-	6,394,439
Interest and dividends payable	10,296,584	-	5,130,925	-	15,427,509
Other accrued expenses	1,728,303	1,610,773	391,647	-	3,730,723
TOTAL LIABILITIES	460,853,078	2,455,672	221,875,681	-	685,184,431

STOCKHOLDERS' EQUITY					
Member capital	-	478,213,247	417,681,754	(895,895,001)	-
Redeemable preferred stock and Series 2 redeemable preferred stock	173,115,447	-	-	-	173,115,447
Common stock	5,813	-	-	-	5,813
Accumulated deficit	(39,449,517)	-	-	-	(39,449,517)
TOTAL STOCKHOLDERS' EQUITY	133,671,743	478,213,247	417,681,754	(895,895,001)	133,671,743
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 594,524,821	$ 480,668,919	$ 639,557,435	$ (895,895,001)	$ 818,856,174

B-21

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2018	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$ -	$ 6,620,224	$ 16,719,526	$ -	$ 23,339,750
Interest and other income	661,859	17,798	295,541	-	975,198
TOTAL REVENUE	661,859	6,638,022	17,015,067	-	24,314,948
EXPENSES					
Interest expense	11,396,554	-	5,751,296	-	17,147,850
Employee compensation and benefits	1,414,360	1,318,806	502,533	-	3,235,699
Legal and professional fees	399,790	234,740	521,198	-	1,155,728
Other expenses	1,697,222	476,907	658,648	-	2,832,777
TOTAL EXPENSES	14,907,926	2,030,453	7,433,675	-	24,372,054
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(14,246,067)	4,607,569	9,581,392	-	(57,106)
EQUITY IN INCOME OF SUBSIDIARIES	14,188,961	10,693,650	-	(24,882,611)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(57,106)	15,301,219	9,581,392	(24,882,611)	(57,106)
INCOME TAX BENEFIT	-	-	-	-	-
NET INCOME (LOSS)	(57,106)	15,301,219	9,581,392	(24,882,611)	(57,106)
Preferred stock dividends	4,338,487	-	-	-	4,338,487
NET INCOME (LOSS) ATTRIBUTABLE TO	$ (4,395,593)	$ 15,301,219	$ 9,581,392	$ (24,882,611)	$ (4,395,593)

COMMON
SHAREHOLDERS

For the three months ended June 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$ -	$ 201,685	$ 11,094,581	$ -	$ 11,296,266
Interest and other income	69,221	163,384	298,141	(159,426)	371,320
TOTAL REVENUE	69,221	365,069	11,392,722	(159,426)	11,667,586
EXPENSES					
Interest expense	8,325,874	391,061	3,555,266	(26,176)	12,246,025
Employee compensation and benefits	2,109,562	1,529,188	102,549	-	3,741,299
Legal and professional fees	284,756	179,461	866,372	-	1,330,589
Other expenses	1,885,146	650,320	1,358,882	(133,250)	3,761,098
TOTAL EXPENSES	12,605,338	2,750,030	5,883,069	(159,426)	21,079,011
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(12,536,117)	(2,384,961)	5,509,653	-	(9,411,425)
EQUITY IN INCOME OF SUBSIDIARIES	3,124,692	7,241,779	-	(10,366,471)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(9,411,425)	4,856,818	5,509,653	(10,366,471)	(9,411,425)
INCOME TAX BENEFIT	(3,717,174)	-	-	-	(3,717,174)
NET INCOME (LOSS)	(5,694,251)	4,856,818	5,509,653	(10,366,471)	(5,694,251)
Preferred stock dividends	2,031,097	-	-	-	2,031,097
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (7,725,348)	$ 4,856,818	$ 5,509,653	$ (10,366,471)	$ (7,725,348)

B-22

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Operations (continued)

For the six months ended June 30, 2018	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$ -	$ 8,013,679	$ 29,194,816	$ -	$ 37,208,495
Interest and other income	1,113,898	26,524	507,703	-	1,648,125
TOTAL REVENUE	1,113,898	8,040,203	29,702,519	-	38,856,620
EXPENSES					
Interest expense	22,019,206	-	11,191,981	-	33,211,187
Employee compensation and benefits	3,337,093	2,794,537	846,738	-	6,978,368
Legal and professional fees	807,102	466,390	1,055,865	-	2,329,357
Other expenses	3,491,702	941,514	1,140,138	-	5,573,354
TOTAL EXPENSES	29,655,103	4,202,441	14,234,722	-	48,092,266
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(28,541,205)	3,837,762	15,467,797	-	(9,235,646)
EQUITY IN INCOME OF SUBSIDIARIES	19,305,559	17,557,850	-	(36,863,409)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(9,235,646)	21,395,612	15,467,797	(36,863,409)	(9,235,646)
INCOME TAX BENEFIT			-	-	
NET INCOME (LOSS)	(9,235,646)	21,395,612	15,467,797	(36,863,409)	(9,235,646)
Preferred stock dividends	8,042,971	-	-	-	8,042,971

NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (17,278,617)	$ 21,395,612	$ 15,467,797	$ (36,863,409)	$ (17,278,617)

For the six months ended June 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Gain on life insurance policies, net	$ -	$ 1,701,012	$ 28,995,074	$ -	$ 30,696,086
Interest and other income	154,228	235,285	923,802	(253,470)	1,059,845
TOTAL REVENUE	154,228	1,936,297	29,918,876	(253,470)	31,755,931
EXPENSES					
Interest expense	17,587,908	677,415	7,292,113	(67,195)	25,490,241
Employee compensation and benefits	4,038,357	2,750,770	115,232	-	6,904,360
Legal and professional fees	777,571	440,549	1,058,817	-	2,276,937
Other expenses	3,548,149	1,533,051	1,646,496	(186,275)	6,541,420
TOTAL EXPENSES	25,951,985	5,401,785	10,112,658	(253,470)	41,212,958
INCOME (LOSS) BEFORE EQUITY IN INCOME OF SUBSIDIARIES	(25,797,757)	(3,465,488)	19,806,218	-	(9,457,027)
EQUITY IN INCOME OF SUBSIDIARIES	16,340,730	21,305,986	-	(37,646,716)	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(9,457,027)	17,840,498	19,806,218	(37,646,716)	(9,457,027)
INCOME TAX BENEFIT	(3,717,674)	-	-	-	(3,717,674)
NET INCOME (LOSS)	(5,739,353)	17,840,498	19,806,218	(37,646,716)	(5,739,353)
Preferred stock dividends	3,898,857	-	-	-	3,898,857
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (9,638,210)	$ 17,840,498	$ 19,806,218	$ (37,646,716)	$ (9,638,210)

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Cash Flows

For the three months ended June 30, 2018	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (57,106)	$ 15,301,219	$ 9,581,392	$ (24,882,611)	$ (57,106)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(14,188,961)	(10,693,650)	-	24,882,611	-
Changes in fair value of life insurance policies	-	(4,693,656)	(9,879,519)	-	(14,573,175)
Amortization of deferred financing and issuance costs	2,139,018	-	263,755	-	2,402,773
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	-	(600,000)	(14,132,270)	-	(14,732,270)
Other assets	(59,942,967)	(41,271,719)	346,531	99,135,390	(1,732,765)
Increase (decrease) in operating liabilities:					
Accounts payable and other accrued expenses	471,218	(68,313)	139,185	-	542,090
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(71,578,798)	(42,026,119)	(13,680,926)	99,135,390	(28,150,453)

CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	-	(15,548,000)	(14,700,939)	-	(30,248,939)
Carrying value of matured life insurance policies	-	1,313,885	4,834,464	-	6,148,349
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	-	(14,234,115)	(9,866,475)	-	(24,100,590)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on (repayments of) senior debt	-	-	(29,080,815)	-	(29,080,815)
Proceeds from issuance of L Bonds	60,536,446	-	-	-	60,536,446
Payments for redemption and issuance of L Bonds	(13,710,821)	-	-	-	(13,710,821)
Proceeds from issuance of preferred stock	14,372,959	-	-	-	14,372,959
Payments for issuance of preferred stock	(984,599)	-	-	-	(984,599)
Payments for redemption of preferred stock	(1,212,690)	-	-	-	(1,212,690)
Preferred stock dividends	(4,338,487)	-	-	-	(4,338,487)
Issuance of member capital	-	57,296,366	41,839,024	(99,135,390)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	54,662,808	57,296,366	12,758,209	(99,135,390)	25,581,993
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,915,990)	1,036,132	(10,789,192)	-	(26,669,050)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH					

BEGINNING OF THE PERIOD	139,933,398	5,158,970	12,672,795	-	157,765,163
END OF THE PERIOD	$ 123,017,408	$ 6,195,102	$ 1,883,603	$ -	$ 131,096,113

B-24

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Cash Flows (continued)

For the three months ended June 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (5,694,251)	$ 4,856,818	$ 5,509,653	$ (10,366,471)	$ (5,694,251)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(3,124,692)	(7,241,779)	-	10,366,471	-
Changes in fair value of life insurance policies	-	(134,399)	(15,101,103)	-	(15,235,502)
Amortization of deferred financing and issuance costs	926,816	28,964	542,168	-	1,497,948
Deferred income taxes	(3,717,174)	-	-	-	(3,717,174)
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	-	600,000	1,405,000	-	2,005,000
Other assets	(32,646,205)	(23,493,280)	316,604	55,878,537	55,656
Increase (decrease) in operating liabilities:					
Accounts payable and other accrued expenses	1,974,991	(1,405,114)	830,967	-	1,400,844
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(42,280,515)	(26,788,790)	(6,496,711)	55,878,537	(19,687,479)

CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	-	-	(19,432,338)	-	(19,432,338)
Carrying value of matured life insurance policies	-	256,152	2,758,682	-	3,014,834
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	-	256,152	(16,673,656)	-	(16,417,504)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on (repayments of) senior debt	-	-	(3,845,037)	-	(3,845,037)
Payments for issuance of senior debt	-	(1,076,118)	-	-	(1,076,118)
Payments for redemption of Series I Secured Notes	-	(4,348,372)	-	-	(4,348,372)
Proceeds from issuance of L Bonds	31,875,811	-	-	-	31,875,811
Payments for redemption and issuance of L Bonds	(15,025,566)	-	-	-	(15,025,566)
Issuance of common stock	4	-	-	-	4
Proceeds from issuance of preferred stock	34,301,747	-	-	-	34,301,747
Payments for issuance of preferred stock	(1,945,618)	-	-	-	(1,945,618)
Payments for redemption of preferred stock	(1,372,593)	-	-	-	(1,372,593)
Preferred stock dividends	(2,031,097)	-	-	-	(2,031,097)
Issuance of member capital	-	31,450,843	24,427,694	(55,878,537)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	45,802,688	26,026,353	20,582,657	(55,878,537)	36,533,161
NET INCREASE (DECREASE) IN	3,522,173	(506,285)	(2,587,710)	-	428,178

CASH AND CASH EQUIVALENTS					
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF THE PERIOD	46,110,677	6,411,771	45,502,477	-	98,024,925
END OF THE PERIOD	$ 49,632,850	$ 5,905,486	$ 42,914,767	$ -	$ 98,453,103

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Cash Flows (continued)

For the six months ended June 30, 2018	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (9,235,646)	$ 21,395,612	$ 15,467,797	$ (36,863,409)	$ (9,235,646)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(19,305,559)	(17,557,850)	-	36,863,409	-
Changes in fair value of life insurance policies	-	(6,205,841)	(25,012,928)	-	(31,218,769)
Amortization of deferred financing and issuance costs	4,138,451	-	527,510	-	4,665,961
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	-	700,000	(11,076,239)	-	(10,376,239)
Other assets	(79,448,344)	(65,365,920)	521,297	142,483,761	(1,809,206)
Increase (decrease) in operating liabilities:					
Accounts payable and other accrued expenses	1,161,452	19,255	(2,183,825)	-	(1,003,118)
	(102,689,646)	(67,014,744)	(21,756,388)	142,483,761	(48,977,017)

NET CASH FLOWS USED IN OPERATING ACTIVITIES					
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	-	(15,548,000)	(40,000,764)	-	(55,548,764)
Carrying value of matured life insurance policies	-	1,954,430	9,277,213	-	11,231,643
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	-	(13,593,570)	(30,723,551)	-	(44,317,121)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on (repayments of) senior debt	-	-	(32,135,150)		(32,135,150)
Proceeds from issuance of L Bonds	97,197,545	-	-	-	97,197,545
Payments for redemption and issuance of L Bonds	(25,956,269)	-	-	-	(25,956,269)
Proceeds from issuance of preferred stock	56,238,128	-	-		56,238,128
Payments for issuance of preferred stock	(4,142,294)	-	-		(4,142,294)
Payments for redemption of preferred stock	(1,539,914)	-	-		(1,539,914)
Preferred stock dividends	(8,042,971)	-	-	-	(8,042,971)
Issuance of member capital	-	75,949,383	66,534,378	(142,483,761)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	113,754,225	75,949,383	34,399,228	(142,483,761)	81,619,075

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,064,579	(4,658,931)	(18,080,711)	-	(11,675,063)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF THE PERIOD	111,952,829	10,854,033	19,964,314	-	142,771,176
END OF THE PERIOD	$ 123,017,408	$ 6,195,102	$ 1,883,603	$ -	$ 131,096,113

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statements of Cash Flows (continued)

For the six months ended June 30, 2017	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (5,739,353)	$ 17,840,498	$ 19,806,218	$ (37,646,716)	$ (5,739,353)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Equity of subsidiaries	(16,340,730)	(21,305,986)	-	37,646,716	-
Changes in fair value of life insurance policies	-	(1,193,821)	(27,925,514)	-	(29,119,335)
Amortization of deferred financing and issuance costs	2,855,809	74,384	1,233,958	-	4,164,151
Deferred income taxes, net	(3,717,674)	-	-	-	(3,717,674)
(Increase) decrease in operating assets:					
Life insurance policy benefits receivable	-	-	(1,625,000)	-	(1,625,000)
Other assets	(27,138,260)	(55,534,365)	1,842,210	83,082,776	2,252,361
Increase (decrease) in operating liabilities:					
Accounts payable and other accrued expenses	3,428,613	(1,563,526)	1,081,963	-	2,947,050
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(46,651,595)	(61,682,816)	(5,586,165)	83,082,776	(30,837,800)

CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life insurance policies	-	-	(42,121,671)	-	(42,121,671)
Carrying value of matured life insurance policies	-	751,576	4,632,232	-	5,383,808
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	-	751,576	(37,489,439)	-	(36,737,863)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings on (repayments of) senior debt	-	-	(7,099,537)	-	(7,099,537)
Payments for issuance of senior debt	-	(1,076,118)	(114,294)	-	(1,190,412)
Payments for redemption of Series I Secured Notes	-	(9,798,261)	-	-	(9,798,261)
Proceeds from issuance of L Bonds	56,744,470	-	-	-	56,744,470
Payments for redemption and issuance of L Bonds	(39,197,163)	-	-	-	(39,197,163)
Redemption of common stock	(1,603,556)	-	-	-	(1,603,556)
Proceeds from issuance of preferred stock	61,480,941	-	-	-	61,480,941
Payments for issuance of preferred stock	(3,963,105)	-	-	-	(3,963,105)
Payments for redemption of preferred stock	(1,759,332)	-	-	-	(1,759,332)
Preferred stock dividends	(3,898,857)	-	-	-	(3,898,857)
Issuance of member capital	-	26,232,504	56,850,272	(83,082,776)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	67,803,398	15,358,125	49,636,441	(83,082,776)	49,715,188
	21,151,803	(45,573,115)	6,560,837	-	(17,860,475)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH BEGINNING OF THE PERIOD	28,481,047	51,478,601	36,353,930	-	116,313,578
END OF THE PERIOD	$ 49,632,850	$ 5,905,486	$ 42,914,767	$ -	$ 98,453,103

GWG HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(20) Concentration

We mostly purchase life insurance policies written by life insurance companies having investment-grade ratings by independent rating agencies. As a result, there may be certain concentrations of policies with life insurance companies. The following summarizes the face value of insurance policies with specific life insurance companies exceeding 10% of the total face value held by our portfolio.

Life Insurance Company	June 30, 2018		December 31, 2017	
John Hancock	14.71	%	15.57	%
AXA Equitable	11.39	%	11.88	%
Lincoln National	11.19	%	10.80	%

The following summarizes the states, based on insured state of residence of the insurance policies in our portfolio, exceeding 10% of the total face value held by us:

State of Residence	June 30, 2018		December 31, 2017	
Florida	19.90	%	20.16	%
California	18.71	%	18.60	%

(21) Subsequent Events

Subsequent to June 30, 2018, two policies covering two individuals have matured. The combined face value of insurance benefits of these policies were $400,000.

Subsequent to June 30, 2018, we have issued approximately $28,462,000 of L Bonds.

On January 12, 2018, GWG Holdings and its wholly owned subsidiary GWG Life entered into a Master Exchange Agreement with The Beneficient Company Group, L.P., a Delaware limited partnership ("Beneficient"), MHT Financial SPV, LLC, a Delaware limited liability company ("MHT SPV"), and various related trusts (the "Seller Trusts"), as amended and restated on January 18, 2018 with effect from January 12, 2018, and as further amended by the First Amendment to Master Exchange Agreement and Second Amendment to Master Exchange Agreement (as amended, the "Master Exchange Agreement"). Under the Master Exchange Agreement, GWG Holdings, on the one hand, and any of Beneficient, MHT SPV or the Seller Trusts, on the other hand, could terminate the Master Exchange Agreement prior to the closing under certain circumstances, including if the conditions to closing of the transaction had not been fulfilled by June 30, 2018 (the "Closing Conditions Date"). On March 30, 2018 and June 29, 2018, GWG Holdings, GWG Life, Beneficient, MHT SPV, and the Seller Trusts entered into First and Second Amendments to Master Exchange Agreement pursuant to which the Closing Conditions Date was extended to July 30, 2018. The material terms and conditions of the Master Exchange Agreement were described in GWG Holdings' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 18, 2018. The transactions contemplated by the Master Exchange Agreement are referred to as the "Exchange Transaction".

On August 10, 2018, GWG Holdings, GWG Life, Beneficient, MHT SPV, and the Seller Trusts entered into a Third Amendment to Master Exchange Agreement (the "Third Amendment"). Pursuant to the Third Amendment, the parties agreed to consummate the Exchange Transaction in two closings. The Third Amendment also generally deleted MHT SPV as a party to the Master Exchange Agreement. The material terms and conditions of the Third Amendment, the Exchange Transaction and the first closing thereof were described in GWG Holdings' Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2018.

In connection with the transactions contemplated by the Third Amendment, on August 10, 2018, GWG Holdings, GWG Life and Bank of Utah, as trustee (the "Trustee"), entered into a Supplemental Indenture (the "Supplemental Indenture") to the Amended and Restated Indenture dated as of October 23, 2017 between GWG Holdings, GWG Life and the Trustee, as amended. GWG Holdings entered into the Supplemental Indenture to add and change certain provisions of the Amended and Restated Indenture necessary to provide for the issuance of a new class of securities titled "Seller Trust L Bonds". The maturity date of the Seller Trust L Bonds is August 9, 2023. The Seller Trust L Bonds bear interest at 7.50% per year. The material terms and conditions of the Supplemental Indenture and the Seller Trust L Bonds were described in GWG Holdings' Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2018.

On August 14, 2018 the Company's Board of Directors declared a special dividend of $4.30 per share of common stock (approximately $25 million) payable in cash on September 5, 2018 to shareholders of record on August 27, 2018.

ITEM 1A. RISK FACTORS.

On August 10, 2018, GWG Holdings, GWG Life, Beneficient, MHT SPV, and the Seller Trusts entered into a Third Amendment to Master Exchange Agreement (the “Third Amendment”). Pursuant to the Third Amendment, the parties agreed to consummate the transactions contemplated by the Master Exchange Agreement in two closings. The first closing occurred on August 10, 2018. The material terms and conditions of the Third Amendment and such first closing were described in GWG Holdings’ Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2018. The risk factors below update the risk factors regarding the Exchange Transaction (as defined below) that were previously included in our Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 29, 2018.

Risks associated with our Exchange Transaction with The Beneficient Company Group, L.P.:

We may not complete the Final Closing of the Exchange Transaction within our anticipated timeframe or at all.

We have entered into a Master Exchange Agreement (as amended, the “Master Agreement”) to govern our securities exchange transaction with The Beneficient Company Group, L.P. (“Beneficient”) and certain other parties (the “Exchange Transaction”). The Master Agreement contemplates that the Exchange Transaction will occur in two closings, an initial closing, which was completed on August 10, 2018 (the “Initial Transfer”) and a final closing (the “Final Closing”), which is subject to various conditions. Upon consummation of the Initial Transfer, we issued $403 million of a new series of L Bonds to certain parties referred to as the “Seller Trusts” in the Master Agreement and 5.0 million shares at $10.00 per share of Series B Convertible Preferred Stock to Beneficient who we understand will transfer such shares to the Seller Trusts; in exchange Beneficent owes us $200 million under a commercial loan (the “Commercial Loan”); $162.9 million under an exchangeable note (“Exchangeable Note”) which automatically converts into 16.3 million Beneficient common units upon consummation of the Final Closing; and issued us 4.0 million Beneficient common units at $10.00 per unit. Although we anticipate that the Final Closing will occur in the fourth quarter of 2018, there can be no assurance that it will be completed on this timeframe or at all. Under the Master Agreement, in the Final Closing, (i) the Seller Trusts will transfer to us an additional 24.2 million Beneficient common units at $10.00 per unit, (ii) Beneficient will issue to us approximately 16.3 million Beneficient common units at $10.00 per unit in satisfaction of the Exchangeable Note, and we will deliver to the Seller Trusts 24.2 million shares of our common stock at $10.00 per share and the Convertible Preferred Stock will convert into 5.0 million shares of our common stock at $10.00 per share. If the Final Closing of the Exchange Transaction is not completed for any reason, we will not realize all of the anticipated benefits of the Exchange Transaction described elsewhere in this report. Further, the price of our common stock may decline to the extent that the current market price reflects an assumption that the Final Closing of the Exchange Transaction will be completed.

Beneficient may be unable to operate its business successfully, which would negatively impact its ability to generate distributable cash flow and increase the value of its common units.

Beneficient plans to provide liquidity products and loans with trust services (collectively, “liquidity products”) to owners of alternative assets and illiquid investment funds. Beneficient intends to market its liquidity products to mid-to-high net worth individuals (i.e., individuals having a net worth of between $5 million and $30 million), along with a variety of other financial services, including custody and clearing of alternative assets, fund and trust administration, retirement funds and insurance services for covering risks attendant to owning or managing alternative assets. Beneficient intends to operate as a master limited partnership. The success of the Exchange Transaction from our perspective will depend, in part, on Beneficient’s ability to operate its business successfully, generate distributable cash flow to limited partners and increase the value of its common units. If Beneficient is unable to do so, such inability will negatively impact the value of our investment in Beneficient and, in turn, would have a corresponding negative impact on the value of our assets and the price of our common stock.

Beneficient’s operations will materially impact our financial performance.

We expect to account for our acquisition of common units of Beneficient using the equity method of accounting. As a result, we will recognize a share of the profits and losses of Beneficient in the periods when such profits and losses are earned or incurred by Beneficient. Because common units of Beneficient will represent a significant percent of our assets, the impact on our financial statements of Beneficient’s financial performance may be material.

Beneficient may be unable to obtain a trust bank charter, or tax status as a master limited partnership, which would hinder Beneficient’s ability to successfully pursue its current business plan and could adversely affect the value of its common units.

Beneficient is a privately-held company organized as a Delaware limited partnership that intends to operate as a master limited partnership. In addition, Beneficient has applied for trust company charters from the State of Texas and intends to carry on much of its business through Texas-Chartered trust companies. There can be no assurance that Beneficient will be successful in obtaining the charters or the timing of the receipt of such charters. Because Beneficient’s current business plans are based in part on obtaining regulatory approval to operate as a regulated trust company and a master limited partnership, a failure to do so may materially and adversely impact its financial performance and prospects, which would likely decrease the value of the Beneficient common units we hold.

Beneficient may be unable to obtain a listing for its common units which would hinder Beneficient's ability to successfully pursue its current business plan and could adversely affect the value of its common units.

Under the Master Agreement, Beneficient has agreed to use its commercial best efforts to pursue and obtain a listing following the closing of the Exchange Transaction. If Beneficient fails to file a registration statement with the SEC in connection with a listing within 24 months after such closing, or secure a listing on or prior to the 40-month anniversary of such closing, then the Master Agreement provides that we may, at our election, cause Beneficient to adopt a strategy to redeem all of the common units of Beneficient then held by us at a redemption price equal to the greater of $11.00 per unit or the book value per unit as of the redemption date. Under this strategy, Beneficient would be required to use a portion of its distributable cash flow to satisfy our redemption election (together with all other redemption elections that may be made by the holders of other interests in Beneficient or interests convertible into interests of Beneficient). However, there is no assurance that Beneficient's distributable cash flow will be sufficient to affect a redemption within a particular period of time or at all. If Beneficient is ultimately unable to satisfy its redemption obligations, we may not be able to recoup our investment in Beneficient common units.

We will have limited or no ability to influence Beneficient's management's decisions regarding its business.

Although, upon the Final Closing of the Exchange Transaction, we will own a significant percentage of Beneficient's outstanding common units (approximately 87%), Beneficient's general partner is authorized to perform all acts that it determines to be necessary or appropriate to carry out Beneficient's purposes and to conduct its business. As a result, we will have only limited voting rights relating to certain matters and, as is contemplated by the terms of Beneficient's limited partnership agreement (which we have become a party to as a result of the completion of the Initial Transfer), any person or group that acquires beneficial ownership of 20% or more of Beneficient's common limited partnership units (including GWG) will lose voting rights associated with all of its common units and such common units may not be voted on any matter. Further, any person or group (other than Beneficient's general partner and its affiliates, or a direct or subsequently approved transferee of the general partner or its affiliates or such person or group approved by the board of directors of the general partner of Beneficient) who acquires, in the aggregate, beneficial ownership of 20% or more of Beneficient's common units (including GWG which, upon the Final Closing will own approximately 87%), will lose voting rights associated with all of its common units and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of limited partners, calculating required votes, determining the presence of a quorum or for other similar purposes. In addition, prior to a listing, if any, of Beneficient's common units on a national stock exchange or, in lieu thereof, quotation of the common units in an automated quotation system, the executive committee of the board of directors of the general partner of Beneficient will be entitled to cast all of the votes that the limited partners would otherwise be entitled to cast, and no limited partner, in its capacity as such, will be permitted to vote in respect of its common units. As a result, we will have limited or no ability to influence Beneficient's management's decisions regarding its business.

Beneficient's partnership agreement eliminates fiduciary duties that might otherwise be owed to us under Delaware law.

Beneficient's business and affairs are managed by Beneficient Management, LLC, its general partner ("Beneficient Management"). Beneficient's partnership agreement eliminates the fiduciary duties that might otherwise be owed by the Beneficient Management under Delaware law and replaces them with the duties expressly set forth in such agreement. Beneficient's partnership agreement provides that, when the general partner is permitted or required to make a decision in its "discretion" or pursuant to a provision not subject to an express standard of "good faith," in making such decision, the general partner has no duty to give any consideration to any interest of or factors affecting Beneficient or any other person. If a decision under Beneficient's partnership agreement is subject to an express standard of "good faith," such decision will not constitute a breach of the agreement if the decision is approved by (i) a majority of the members of the conflicts committee of the board of directors of the general partner of Beneficient, (ii) holders of a majority of the voting power of the Beneficient's common units entitled to vote (excluding voting common units owned by the general partner and its affiliates), or (iii) the general partner acting without a subjective belief that such decision was adverse to the interests of Beneficient. Potential conflicts of interest may arise among the general partner and its affiliates, on the one hand, and Beneficient, on the other hand, and the general partner may be able to favor its own interest to the detriment of Beneficient and the holders of the common units.

Beneficient has significant debt obligations outstanding to us and has the ability to incur additional indebtedness.

Subject to certain restrictions within the Commercial Loan, Beneficient is permitted to incur additional indebtedness ranking senior to the Commercial Loan and the Exchangeable Note. If Beneficient is unable to execute its business plans, it may materially and adversely impact Beneficient's ability to repay its indebtedness, including the Commercial Loan and Exchangeable Note in accordance with their respective terms. As a significant holder of Beneficient indebtedness, a payment default under any additional indebtedness Beneficient may incur, or under the Commercial Loan or Exchangeable Note, would likely have a corresponding negative impact on the value of our assets (including the value of our Beneficient common units) and the price of our common stock.

Our percentage ownership in Beneficient may be diluted.

Upon consummation of the Final Closing of the Exchange Transaction, we will become the owner of approximately 87% of the issued and outstanding common units in Beneficient. Our percentage ownership does not take into account (i) approximately 125,657,883 limited partner interests that may be issued upon the conversion of outstanding securities issued by Beneficient or its affiliates, or (ii) additional limited partner interests that may be issued after the closing of the Exchange Transaction. Importantly, the general partner of Beneficient has discretion to cause Beneficient to issue additional limited partner interests from time to time, and Beneficient's partnership agreement contains no meaningful restrictions on this authority. Moreover, the Beneficient organizational structure permits the future issuance of additional securities that can, upon certain circumstances or at the discretion of their holders, be converted into additional limited partner interests in Beneficient. As a result, our percentage ownership in Beneficient may be diluted in the future.

The resale of our common stock issued in the Exchange Transaction could put downward pressure on the market price of our common stock and result in a destabilized trading market for our common stock.

Upon the Final Closing, our Series B Convertible Preferred Stock will automatically convert to 5 million shares of our common stock and we will also issue approximately 24.2 million additional shares of our common stock, which in the aggregate will represent approximately 83% of our outstanding common stock. The shares of common stock we issue on the Final Closing will be subject to contractual resale restrictions, governance restrictions, as well as resale restrictions. The Master Agreement and related ancillary agreements require that we register the resale of the shares of common stock issued in the Final Closing to the Seller Trusts to the extent permitted by applicable SEC rules and regulations. Upon the effectiveness of such registration, or the lapse of applicable resale restrictions under applicable securities laws or applicable lock-up restrictions, the shares of our common stock issued in the Exchange Transaction will be available for resale in the public equity markets only through an Orderly Marketing Agreement or in a widely dispersed registered public offering. We cannot predict the effect, if any, that future sales of these shares or the availability of these shares for future sale will have on the market price of our common stock.

At the Final Closing, we will enter into an Orderly Marketing Agreement among GWG, the Seller Trusts and Credit Suisse Securities (USA), LLC for the orderly marketing and resale of the common stock to be issued to the Seller Trusts in the Exchange Transaction. The purpose of this Orderly Marketing Agreement is to manage the timing and amount of our common shares that are publicly resold in the market because the number of shares of our common stock to be issued in the Exchange Transaction will substantially increase the total number of our issued and outstanding shares. However, there is no assurance that the Orderly Marketing Agreement will accomplish its purpose of maintaining a stable market for our common stock. Until the sales of our common stock under the Orderly Marketing Agreement, certain governance restrictions will remain in place for the benefit of our current shareholders under a Stockholders Agreement.

Upon consummation of the Exchange Transaction, the Seller Trusts, collectively, will own a substantial majority of our outstanding common stock.

At the Final Closing of the Exchange Transaction, our 5 million shares of Series B Convertible Preferred Stock will convert into 5 million shares of our common stock and we will issue 24.2 million shares of our common stock to the Seller Trusts. Upon conversion of our Series B Convertible Preferred Stock and the issuance of our common stock, such shares will represent approximately 83% of our outstanding common stock. At the Final Closing, we will enter into a Stockholders Agreement with the Seller Trusts which provides that for so long as the Seller Trusts own voting securities of GWG Holdings representing 10% or more of the total voting power of all shares of GWG Holdings voting securities, all voting securities of GWG Holdings over which the Seller Trusts (and their respective transferees) have voting control will be voted solely in proportion with the votes cast by all other holders of voting securities of GWG on any matter put before them. In the Stockholders Agreement, the Seller Trusts have agreed to only sell shares of our Common Stock under the Orderly Marketing Agreement or in a registered public offering to or through one or more underwriters or placement agents and to instruct the underwriters or placement agents to use their reasonable best efforts to (x) effect as wide a distribution of the shares of our common stock as is reasonably practicable without adversely affecting the pricing thereof and (y) not sell any shares of our common stock to any person or group who, after consummation of the sale, would have beneficial ownership of our voting securities representing in the aggregate 5.0% or more of the total voting power of all shares of GWG Holdings voting securities or, in the case of certain institutional investors, 10% or more of the total voting power of all shares of GWG Holdings voting securities). In addition, until the earlier of (i) one year from the closing of the Exchange Transaction and (ii) the termination of the Orderly Marketing Agreement, the Seller Trusts (including their assignees and transferees, and their respective affiliates) will be subject to certain standstill restrictions that will prohibit the Seller Trusts from, among other things, acquiring any of our voting securities, seeking or proposing to influence or control our management, Board of Directors, or policies, and submitting a proposal for any merger, recapitalization, reorganization, business combination, or other extraordinary transaction involving our Company. Following expiration of the standstill period, however, the Seller Trusts, to the extent they continue to hold shares of our common stock, may engage in such activities. Notwithstanding these contractual restrictions, we cannot assure you that the Seller Trusts will not have some influence over our business.

An inability to obtain accurate and timely financial information from Beneficient may prevent us from complying with reporting obligations under federal securities law and compromise our ability to finance our operations through the public equity or debt markets.

On August 14, 2018, we filed a current report on Form 8-K disclosing completion of the Initial Transfer. We are required under applicable SEC reporting rules to amend that current report to include certain historical and pro forma financial information, including audited historical financial statements of Beneficient. The amendment was filed on November 9, 2018.

Going forward, we expect to recognize a share of the profits and losses of Beneficient in the periods when such profits and losses are earned or incurred by Beneficient. Therefore, we will continue to be heavily reliant on Beneficient to provide us with accurate and timely financial reporting that will allow us to timely prepare and file our own financial statements in accordance with U. S. generally accepted accounting principles and in compliance with SEC regulations.

If we are unable to obtain accurate and timely financial information from Beneficient and are unable to timely prepare and file our financial statements as a result, we may fail to comply with reporting obligations under federal securities law, become subject to delisting from the Nasdaq Stock Market, and may be unable to utilize the public debt or equity markets to finance our operations. Because we have been heavily reliant on the public offer and sale of L Bonds, discontinuing our L Bond offers would have a material adverse impact on our ability to expand our life insurance portfolio and otherwise fund our operations. In addition, our failure to deliver financial information and comply with disclosure requirements under applicable SEC regulations may result in covenant violations under our amended and restated senior credit facility with LNV Corporation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with the condensed consolidated financial statements and accompanying notes and the information contained in other sections of this report. This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management.

Risk Relating to Forward-Looking Statements

This report contains forward-looking statements that reflect our current expectations and projections about future events. Actual results could differ materially from those described in these forward-looking statements.

The words "believe," "could," "possibly," "probably," "anticipate," "estimate," "project," "expect," "may," "will," "should," " "plan," "expect," or "consider" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from such statements. Many of the forward-looking statements contained in this report can be found in our MD&A discussion.

Such risks and uncertainties include, but are not limited to:

changes in the secondary market for life insurance;

changes resulting from the evolution of our business model and strategy with respect to the life insurance industry;

the valuation of assets reflected on our financial statements;

the reliability of assumptions underlying our actuarial models, including our life expectancy estimates;

our reliance on debt financing and continued access to the capital markets;

our history of operating losses;

risks relating to the validity and enforceability of the life insurance policies we purchase;

risks relating to our ability to license and effectively apply epigenetic technology to improve and expand the scope of our business;

our reliance on information provided and obtained by third parties, including underwriting tables;

federal, state and FINRA regulatory matters;

competition in the secondary market of life insurance and epigenetic technology;

the relative illiquidity of life insurance policies;

our ability to satisfy our debt obligations if we were to sell our entire portfolio of life insurance policies;

life insurance company credit exposure;

cost-of-insurance (premium) increases on our life insurance policies;

general economic outlook, including prevailing interest rates;

performance of our investments in life insurance policies;

financing requirements;

risks associated with the merchant cash advance business;

the various risks associated with our attempts to commercialize our epigenetic technology;

B-32

risks associated with our ability to protect our intellectual property rights;

litigation risks;

restrictive covenants contained in borrowing agreements;

our ability to make cash distributions in satisfaction of dividend obligations and redemption requests; and

We caution you that the foregoing list of factors is not exhaustive. Forward-looking statements are only estimates and predictions, or statements of current intent. Actual results, outcomes or actions that we ultimately undertake could differ materially from those anticipated in the forward-looking statements due to risks, uncertainties or actual events differing from the assumptions underlying these statements.

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. This means that an "emerging growth company" can make an election to delay the adoption of certain accounting standards until those standards would apply to private companies. We have historically qualified as an emerging growth company and have elected to delay our adoption of new or revised accounting standards and, as a result, we may not have complied with new or revised accounting standards at the same time as other public reporting companies that are not "emerging growth companies." Effective upon the initial closing of the transactions contemplated by the Master Exchange Agreement (discussed below), we no longer qualify as an emerging growth company as a result of the aggregate amount of non-convertible debt that we have issued during the prior three year period.

Overview

We are a financial services company committed to disrupting and transforming the life insurance and related industries. We built our business by creating opportunities for consumers to obtain significantly more value for their life insurance policies in a secondary market as compared to the traditional options offered by the insurance industry.

We are enhancing and extending our activities in the life insurance industry by bringing step change technology through the commercialization of advanced epigenetic technology. At the same time, we are creating opportunities for investors to receive income and capital appreciation from our investment activities related to the life insurance industry.

Critical Accounting Policies

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with the Generally Accepted Accounting Principles in the United States of America (GAAP) requires us to make significant judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our judgments, estimates, and assumptions on historical experience and on various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates. We evaluate our judgments, estimates, and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates, and assumptions involved in valuing our investments in life insurance policies and evaluating deferred taxes have the greatest potential impact on our consolidated financial statements and accordingly believe these to be our critical accounting estimates. Below we discuss the critical accounting policies associated with these estimates as well as certain other critical accounting policies.

Ownership of Life Insurance Policies — Fair Value Option

We account for the purchase of life insurance policies in accordance with Accounting Standards Codification 325-30, *Investments in Insurance Contracts*, which requires us to use either the investment method or the fair value method. We have elected to account for all of our life insurance policies using the fair value method.

The fair value of our life insurance policies is determined as the net present value of the life insurance portfolio's future expected cash flows (policy benefits received and required premium payments) that incorporates current life expectancy estimates and discount rate assumptions.

We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all external fees and costs associated with the acquisition. At each subsequent reporting period, we re-measure the investment at fair value in its entirety and recognize the change in fair value as unrealized gain (revenue) in the current period, net of premiums paid. Changes in the fair value of our portfolio are based on periodic evaluations and are recorded in our consolidated statements of operations as changes in fair value of life insurance policies.

Fair Value Components — Life Expectancies

Unobservable inputs, as discussed below, are a critical component of our estimate for the fair value of our investments in life insurance policies. We currently use a probabilistic method of estimating and valuing the projected cash flows of our portfolio, which we believe to be the preferred and most prevalent valuation method in the industry. In this regard, the most significant assumptions we make are the life expectancy estimates of the insureds and the discount rate applied to the expected future cash flows to be derived from our portfolio.

The 2015 Valuation Basic Table ("2015 VBT") finalized by the Society of Actuaries is based on a much larger dataset of insured lives, face amount of policies and more current information compared to the dataset underlying the 2008 Valuation Basic Table. The 2015 VBT dataset includes 266 million policies compared to the 2008 VBT dataset of 75 million. The experience data in the 2015 VBT dataset includes 2.6 million claims on policies from 51 insurance carriers. Life expectancies implied by the 2015 VBT are generally slightly longer for both males and females nonsmokers between the ages of 65 and 80. However, insureds of both genders over the age of 80 have significantly longer life expectancies, approximately 8% to 42% longer, as compared to the 2008 VBT. We adopted the 2015 VBT in our valuation process in 2016.

For life insurance policies with face amounts greater than $1 million and that are not pledged under any senior credit facility (approximately 18.4% of our portfolio by face amount of policy benefits) we attempt to update the life expectancy estimates on a continuous rotating three year cycle. For life insurance policies that are pledged under the LNV senior credit facility (approximately 73.1% of our portfolio by face amount of policy benefits) we are presently required to update the life expectancy estimates every two years beginning from the date of the amended facility. For the remaining small face insurance policies (i.e., a policy with $1 million in face value benefits or less) we may employ a range of methods and timeframes to update life expectancy estimates.

We conduct medical underwriting on the life insurance policies we own with life expectancy reports produced by independent third-party medical-actuarial underwriting firms. Each life expectancy report summarizes the underlying insured person's medical history based on the underwriter's review of recent and historical medical records. We obtain two such life expectancy reports for almost all policies, except for small face value insurance policies (i.e., a policy with $1 million in face value benefits or less) for which we have obtained at least one fully underwritten or simplified third-party report. A simplified third-party underwriting report is based on a medical interview, which may be supplemented with additional information obtained from a pharmacy benefit manager database. For valuation purposes, we use the life expectancy estimate, using the average, in the case of multiple reports, expressed as the number of months at which the individual will have a 50% probability of mortality.

Our prior experience in updating life expectancy estimates has generally resulted in shorter life expectancies of the updated insureds within our portfolio, but often not as short as we had projected. This has resulted in reductions to the fair value of our portfolio in the amounts of $0.1 million and $6.7 million for the three months ended June 30, 2018 and 2017, respectively and $5.0 million and $8.6 million for the six months ended June 30, 2018 and 2017, respectively. As our life insurance portfolio continues to grow, we may experience additional and material adjustments to the fair value of our portfolio due to updating life expectancy estimates.

Fair Value Components — Required Premium Payments

We must pay the premiums on the life insurance policies within our portfolio in order to collect the policy benefit. The same probabilistic model and methodologies used to generate expected cash inflows from the life insurance policy benefits over the expected life of the insured are used to estimate cash outflows due to required premium payments. Premiums paid are offset against revenue in the applicable reporting period.

Fair Value Components — Discount Rate

A discount rate is used to calculate the net present value of the expected cash flows. The discount rate used to calculate fair value of our portfolio incorporates the guidance provided by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*.

The table below provides the discount rate used to estimate the fair value of our portfolio of life insurance policies for the period ending:

June 30, 2018	December 31, 2017
10.45%	10.45%

The discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed by us in the life insurance secondary market, market interest rates, credit exposure to the issuing insurance companies, and our estimate of the operational risk premium a purchaser would apply to the future cash flows derived from our portfolio of life insurance policies. Management has discretion regarding the combination of these and other factors when determining the discount rate. The discount rate we choose assumes an orderly and arms-length transaction (i.e., a non-distressed transaction in which neither seller nor buyer is compelled to engage in the transaction), which is consistent with related GAAP guidance. The carrying value of policies acquired during each quarterly reporting period are adjusted to their current fair value using the fair value discount rate applied to the entire portfolio as of that reporting date.

We engaged Model Actuarial Pricing System, LP. ("MAPS"), owner of the actuarial portfolio pricing software we use, to prepare a calculation of our life insurance portfolio. MAPS processed policy data, future premium data, life expectancy estimate data, and other actuarial information to calculate a net present value for our portfolio using the specified discount rate of 10.45%. MAPS independently calculated the net present value of our portfolio of 1,010 policies to be $726.1 million and furnished us with a letter documenting its calculation. A copy of such letter is filed as Exhibit 99.1 to this report.

Deferred Income Taxes

Under Accounting Standards Codification 740, *Income Taxes* ("ASC 740"), deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for deferred tax assets that are not considered "more likely than not" to be realized. Realization of deferred tax assets depends upon having sufficient past or future taxable income in periods to which the deductible temporary differences are expected to be recovered or within any applicable carryback or carryforward periods or sufficient tax planning strategies. After assessing the realization of the net deferred tax assets, we believe that there is substantial uncertainty that our net deferred tax asset will be realized during the applicable carryforward period. As such, a valuation allowance has been established against the total net deferred tax asset as of June 30, 2018 and December 31, 2017, respectively.

Principal Revenue and Expense Items

We earn revenues from the following three primary sources.

Life Insurance Policy Benefits Realized. We recognize the difference between the face value of the policy benefits and carrying value when an insured event has occurred and determine that collection of the policy benefits is realizable and reasonably assured. Revenue from a transaction must meet both criteria in order to be recognized. We generally collect the face value of the life insurance policy from the insurance company within 45 days of our notification of the insured's mortality.

Change in Fair Value of Life Insurance Policies. We value our portfolio investments for each reporting period in accordance with the fair value principles discussed herein, which reflects the expected receipt of policy benefits in future periods, net of premium costs, as shown in our condensed consolidated financial statements.

Sale of a Life Insurance Policy. In the event of a sale of a policy, we recognize gain or loss as the difference between the sale price and the carrying value of the policy on the date of the receipt of payment on such sale.

Our main components of expense are summarized below.

Selling, General and Administrative Expenses. We recognize and record expenses incurred in our business operations, including operations related to the purchasing and servicing of life insurance policies. These expenses include salaries and benefits, sales, marketing, occupancy and other expenditures.

Interest Expense. We recognize, and record interest expenses associated with the costs of financing our life insurance portfolio for the current period. These expenses include interest paid to our senior lenders under our senior credit facility with LNV Corporation, interest paid on our L Bonds and other outstanding indebtedness. When we issue debt, we amortize the financing costs (commissions and other fees) associated with such indebtedness over the outstanding term of the financing and classify it as interest expense.

Results of Operations — Three and Six Months Ended June 30, 2018 Compared to the Same Periods in 2017

The following is our analysis of the results of operations for the periods indicated below. This analysis should be read in conjunction with our condensed consolidated financial statements and related notes.

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue realized from maturities of life insurance policies	$ 21,475,000	$ 7,920,000	$ 30,895,000	$ 24,526,000

Revenue recognized from change in fair value of life insurance policies	14,573,000	15,235,000	31,219,000	29,119,000
Premiums and other annual fees	(12,708,000)	(11,859,000)	(24,906,000)	(22,949,000)
Gain on life insurance policies, net	23,340,000	11,296,000	37,208,000	30,696,000
Interest and other income	975,000	372,000	1,649,000	1,060,000
Total revenue	$ 24,315,000	$ 11,668,000	$ 38,857,000	$ 31,756,000
Attribution of gain on life insurance policies, net:				
Change in estimated probabilistic cash flows, net of premium and other annual fees paid	$ 4,701,000	$ 1,572,000	$ 11,508,000	$ 4,516,000
Net revenue recognized at matured policy event	12,939,000	4,199,000	17,894,000	11,995,000
Unrealized gain on acquisitions	5,795,000	8,044,000	12,769,000	18,646,000
Change in discount rates	-	4,143,000	-	4,143,000
Change in life expectancy evaluation	(95,000)	(6,662,000)	(4,963,000)	(8,604,000)
Gain on life insurance policies, net	$ 23,340,000	$ 11,296,000	$ 37,208,000	$ 30,696,000
Number of policies acquired	85	49	144	122
Face value of purchases	$ 118,308,000	$ 88,740,000	$ 212,660,000	$ 193,495,000
Purchases (initial cost basis)	$ 30,249,000	$ 19,432,000	$ 55,549,000	$ 42,122,000
Unrealized gain on acquisition (% of face value)	4.9 %	9.1 %	6.0 %	9.6 %
Number of policies matured	17	9	32	19
Face value of matured policies	$ 27,623,000	$ 10,935,000	$ 42,127,000	$ 29,910,000
Net revenue recognized at maturity event (% of face value matured)	46.8 %	38.4 %	42.5 %	40.1 %

Revenue from changes in estimated probabilistic cash flows, net of premiums paid was $4.7 million and $1.6 million for the three months ended and $11.5 million and $4.5 million for the six months ended June 30, 2018 and 2017, respectively. Increases of $3.1 million and $7.0 million for the three and six months ended June 30, 2018 over the comparable prior year periods resulted from premium optimization actions coordinated with our external servicer, leveraging certain guarantee features and shadow accounts on certain life insurance policies in our portfolio, and growth of face value in our portfolio, partially offset by COI premium increases recognized of $4.3 million and $5.5 million for the three and six months ended June 30, 2018 compared to $0 for the three and six months ended June 30, 2017.

The face value of policies purchased were $118.3 million and $88.7 million for the three months ended and $212.7 million and $193.5 million for the six months ended June 30, 2018 and 2017, respectively, reflecting increases of face value purchased of $29.6 million and $19.2 million for the three and six months ended June 30, 2018 over the comparable prior year periods. The resulting unrealized gain on acquisition was $5.8 million and $8.0 million for the three months ended and $12.8 million and $18.6 million for the six months ended June 30, 2018 and 2017, respectively, reflecting decreases of $2.2 million and $5.8 million for the three and six months ended June 30, 2018 over the comparable prior year periods. Decreased unrealized gain on acquisition in the current periods is the result of increased purchase competition driving down yields in the broker market.

The face value of matured policies was $27.6 million and $10.9 million for the three months ended and $42.1 million and $29.9 million for the six months ended June 30, 2018 and 2017, respectively, reflecting increases of face value of matured policies of $16.7 million and $12.2 million for the three and six months ended June 30, 2018 over the comparable prior year periods. The resulting revenue recognized at matured policy event was $12.9 million and $4.2 million for the three months ended and $17.9 million and $12.0 million for the six months ended June 30, 2018 and 2017, respectively. Revenue increases from maturity events of $8.7 million and $5.9 million for the three and six months ended June 30, 2018 over the comparable prior year periods primarily resulted from the increased face value of policies matured during those same periods.

Revenue recognized from changes in discount rate were $0 and $4.1 million for both the three and six months ended June 30, 2018 and 2017, respectively. The discount rate of 10.45% as of June 30, 2018 remained unchanged from both the prior quarter and year end dates. The discount rate of 10.81% as of June 30, 2017 reflected a decrease from the 10.96% rate used at both the preceding quarter and year end dates.

Net revenue charges from change in life expectancy evaluation of $0.1 million and $6.7 million for the three months ended and $5.0 million and $8.6 million for the six months ended June 30, 2018 and 2017, respectively. The resulting net revenue increases of $6.6 million and $3.6 million for the three and six months ended June 30, 2018 over the comparable prior year periods primarily resulted from lower number of life expectancy updates received during the three and six months ended June 30, 2018 over the comparable prior year periods. The decreased number of life expectancy updates is primarily the result of our cycle update timing and concentrated efforts of our external servicer in the prior year to resolve a backlog of third party evaluations.

Interest and other income is comprised of bank interest and other miscellaneous items. Increased revenue of $0.6 million for the three and six months ended June 30, 2018 were primarily driven by higher bank account balances and the implementation of a sweep process to move balances to higher interest earning bank accounts.

Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase/ Decrease	2018	2017	Increase/ Decrease
Interest expense (including amortization of deferred financing costs) (1)	$ 17,148,000	$ 12,246,000	$ 4,902,000	$ 33,211,000	$ 25,490,000	$ 7,721,000
Employee compensation and benefits (2)	3,236,000	3,741,000	(505,000)	6,978,000	6,904,000	74,000
Legal and professional expenses (3)	1,155,000	1,331,000	(176,000)	2,330,000	2,278,000	52,000
Other expenses (4)	2,833,000	3,761,000	(928,000)	5,573,000	6,541,000	(968,000)
Total expenses	$ 24,372,000	$ 21,079,000	$ 3,293,000	$ 48,092,000	$ 41,213,000	$ 6,879,000

(1) The average debt outstanding increased from approximately $566.0 million during the three months ended June 30, 2017 to approximately $723.4 million during the same period of 2018, and from approximately $563.0 million during the six months ended June 30, 2017 to approximately $706.9 million during the same period of 2018. The average interest rate of the senior credit facility with LNV Corporation increased from 7.56% to 10.17% for the three months ended June 30, 2017 and 2018, respectively, and from 7.50% to 9.89% for the six months ended June 30, 2017 and 2018, respectively.

(2) Quarterly decrease is due to reduced employee headcount. At June 30, 2018 we employed 63 employees and on June 30, 2017 we employed 76 employees.

(3) Decrease is due to decreased legal fees associated with MCA collections.

(4) Increased contract labor costs, servicing and facility fees were offset by a reduction in charitable contributions and marketing costs, and lower provision for MCA advances. See Note 15 for detailed breakdown.

Deferred Income Taxes

Under ASC 740, Income Taxes (“ASC 740”), deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for deferred tax assets that are not considered “more likely than not” to be realized. Realization of deferred tax assets depends upon having sufficient past or future taxable income in periods to which the deductible temporary differences are expected to be recovered or within any applicable carryback or carryforward periods. After assessing the realization of the net deferred tax assets, we believe that there is substantial uncertainty that our net deferred tax asset will be realized during the applicable carryforward period. As such, a valuation allowance has been established against the total net deferred tax asset as of June 30, 2018 and December 31, 2017.

Income Tax Expense

We realized income tax benefit of $0 and $3.7 million for the three and six months ended June 30, 2018 and 2017, respectively. The effective rate for the three months ended June 30, 2018 and 2017 were 0% and 39.5%, respectively, and 0% and 39.3% for the six month ended June 30, 2018 and 2017, respectively, compared to expected statutory rate of 21.0% and 34.0%, respectively.

The following table provides a reconciliation of our income tax expense at the statutory federal tax rate to our actual income tax expense:

	Three Months Ended June 30, 2018		June 30, 2017		Six Months Ended June 30, 2018		June 30, 2017	
Statutory federal income tax (benefit)	$ (12,000)	21.0 %	$ (3,200,000)	34.0 %	$ (1,939,000)	21.0 %	$ (3,215,000)	34.
State income taxes (benefit), net of federal benefit	10,000	(17.1)%	(607,000)	6.5 %	(692,000)	7.5 %	(609,000)	6.4
Valuation allowance	(36,000)	63.4 %	-	-	2,568,000	(27.8)%	-	-
Other permanent differences	38,000	(67.3)%	90,000	(1.0)%	63,000	(0.7)%	106,000	(1.
Total income tax expense (benefit)	$ -	0.0 %	$ (3,717,000)	39.5 %	$ -	0.0 %	$ (3,718,000)	39.

The Tax Reform Bill enacted by U.S. Federal government in December 2017 changed existing tax law including a reduction of the U.S. Corporate tax rate. The Company re-measured deferred taxes as of the date of enactment, reflecting these changes within deferred tax assets as of December 31, 2017.

The most significant temporary differences between GAAP net income (loss) and taxable net income (loss) are the treatment of interest costs, policy premiums and servicing costs with respect to the acquisition and maintenance of the life insurance policies and revenue recognition with respect to the fair value of the life insurance portfolio.

Liquidity and Capital Resources

We finance our businesses through a combination of life insurance policy benefit receipts, equity offerings, debt offerings, and our senior credit facility. We have used our debt offerings and our senior credit facility for policy acquisition, policy premiums and servicing costs, working capital and financing expenditures including paying principal, interest and dividends.

As of June 30, 2018 and December 31, 2017, we had approximately $158.1 million and $159.4 million, respectively, in combined available cash, cash equivalents, restricted cash and policy benefits receivable for the purpose of purchasing additional life insurance policies, paying premiums on existing policies, paying portfolio servicing expenses, and paying principal, interest and dividends on our outstanding debt and equity securities. Additional future borrowing base capacity for premiums and servicing costs, created as the premiums and servicing costs of pledged life insurance policies become due and by additional policy pledges to the facility, if any, exists under the amended and restated senior credit facility with LNV Corporation.

Financings Summary

We had the following outstanding debt balances as of June 30, 2018 and December 31, 2017:

	As of June 30, 2018		As of December 31, 2017	
Issuer/Borrower	Principal Amount Outstanding	Weighted Average Interest Rate	Principal Amount Outstanding	Weighted Average Interest Rate
GWG Holdings, Inc. – L Bonds (see Note 8)	$ 534,302,000	7.15 %	$ 461,427,000	7.29 %
GWG DLP Funding IV, LLC – LNV senior credit facility (see Note 6)	190,389,000	10.19 %	222,525,000	9.31 %
Total	$ 724,691,000	7.95 %	$ 683,952,000	7.95 %

In November 2011, we began offering Series I Secured Notes, which were governed by an Intercreditor Agreement, a Third Amended and Restated Note Issuance and Security Agreement dated November 1, 2011, as amended, and a related Pledge Agreement. In September 2017, all of the Series I Secured Notes were paid in full and all obligations thereunder were terminated.

In June 2011, we concluded a private placement offering of Series A Preferred Stock for new investors, having received an aggregate $24.6 million in subscriptions for our Series A Preferred Stock. These subscriptions consisted of $14.0 million in conversions of outstanding Series I Secured Notes into Series A Preferred Stock and $10.6 million of new investments. In October 2017, we exercised our contractual right to call for the redemption of the Series A Preferred Stock and all related outstanding warrants and paid an aggregate of approximately $22.2 million.

In January 2012, we began publicly offering up to $250.0 million in debt securities (initially named "Renewable Secured Debentures" and subsequently renamed "L Bonds") that was completed in January 2015.

On September 24, 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at $12.50 per share and net proceeds of approximately $8.6 million after the deduction of underwriting commissions, discounts and expense reimbursements.

In January 2015, we began publicly offering up to $1.0 billion of L Bonds as a follow-on to our earlier $250.0 million public debt offering. In January 2018, we began publicly offering up to $1.0 billion L Bonds as a follow-on to our earlier L Bond offering. Through June 30, 2018, the total amount of these L Bonds sold, including renewals, was $972.8 million. As of June 30, 2018 and December 31, 2017, respectively, we had approximately $534.3 million and $461.4 million in principal amount of L Bonds outstanding.

In October 2015, we began publicly offering up to 100,000 shares of our Redeemable Preferred Stock ("RPS") at a per-share price of $1,000. As of December 31, 2017, we had issued approximately $99.1 million stated value of RPS and terminated that offering.

In February 2017, we began publicly offering up to 150,000 shares of Series 2 Redeemable Preferred Stock (RPS 2) at a per-share price of $1,000. As of June 30, 2018, we have issued approximately $150 million stated value of RPS 2 and terminated that offering.

The weighted-average interest rate of our outstanding L Bonds as of June 30, 2018 and December 31, 2017 was 7.15% and 7.29%, respectively, and the weighted-average maturity at those dates was 2.50 and 2.38 years, respectively. Our L Bonds have renewal features. Since we first issued our L Bonds, we have experienced $438.5 million in maturities, of which $259.3 million has renewed through June 30, 2018 for an additional term. This has provided us with an aggregate renewal rate of approximately 59.1% for investments in these securities.

Future contractual maturities of L Bonds at June 30, 2018 are:

Years Ending December 31,	**L Bonds**
Six months ending December 31, 2018	$ 60,612,000
2019	150,617,000
2020	114,594,000

2021	65,293,000
2022	39,713,000
2023	36,818,000
Thereafter	66,655,000
	$ 534,302,000

The L Bonds are secured by all of our assets and are subordinate to our senior credit facility with LNV Corporation.

On September 27, 2017, we entered into a $300 million amended and restated senior credit facility with LNV Corporation in which DLP IV is the borrower. We intend to use the proceeds from this facility to grow and maintain our portfolio of life insurance policies, for liquidity and for general corporate purposes. As of June 30, 2018 we had approximately $190.4 million outstanding under the senior credit facility with LNV Corporation.

We expect to meet our ongoing operational capital needs for policy acquisition, policy premiums and servicing costs, working capital and financing expenditures including paying principal, interest and dividends through a combination of the receipt of policy benefits from our portfolio of life insurance policies, net proceeds from our L Bond offering, and funding available from our senior credit facility with LNV Corporation. We estimate that our liquidity and capital resources are sufficient for our current and projected financial needs for at least the next twelve months given current assumptions. However, if we are unable to continue our L Bonds offering for any reason, and we are unable to obtain capital from other sources, our business will be materially and adversely affected. In addition, our business will be materially and adversely affected if we do not receive the policy benefits we forecast and if holders of our L Bonds fail to renew with the frequency we have historically experienced. In such a case, we could be forced to sell our investments in life insurance policies to service or satisfy our debt-related and other obligations. A sale under such circumstances may result in significant impairment of the recognized value of our portfolio.

Capital expenditures have historically not been material and we do not anticipate making material capital expenditures in 2018 or beyond.

Debt Financings Summary

The table below reconciles the face amount of our outstanding debt to the carrying value shown on our balance sheet:

	As of June 30, 2018	As of December 31, 2017
Total senior facility with LNV Corporation and other indebtedness		
Face amount outstanding	$ 190,389,000	$ 222,525,000
Unamortized selling costs	(9,758,000)	(10,287,000)
Carrying amount	$ 180,631,000	$ 212,238,000
L Bonds:		
Face amount outstanding	$ 534,302,000	$ 461,427,000
Subscriptions in process	2,547,000	1,560,000
Unamortized selling costs	(18,060,000)	(15,593,000)
Carrying amount	$ 518,789,000	$ 447,394,000

Portfolio Assets and Secured Indebtedness

At June 30, 2018, the fair value of our investments in life insurance policies of $726.1 million plus our cash balance of $124.4 million and our restricted cash balance of $6.7 million, plus matured policy benefits receivable of $27.0 million, totaled $884.2 million, representing an excess of portfolio assets over secured indebtedness of $159.5 million. At December 31, 2017, the fair value of our investments in life insurance policies of $650.5 million plus our cash balance of $114.4 million and our restricted cash balance of $28.3 million, plus matured policy benefits receivable of $16.7 million, totaled $809.9 million, representing an excess of portfolio assets over secured indebtedness of $126.0 million.

The following forward-looking table seeks to illustrate the impact that a hypothetical sale of our portfolio of life insurance assets at various discount rates would have on our ability to satisfy our debt obligations as of June 30, 2018. In all cases, the sale of the life insurance assets owned by DLP IV will be used first to satisfy all amounts owing under the respective senior credit facility with LNV Corporation. The net sale proceeds remaining after satisfying all obligations under the senior credit facility with LNV Corporation would be applied to L Bonds on a pari passu basis.

Portfolio Discount Rate	**10%**	**12%**	**14%**	**16%**	**17%**
Value of portfolio	$ 741,839,000	$ 676,034,000	$ 620,015,000	$ 571,903,000	$ 550,34

Cash, cash equivalents and policy benefits receivable	158,131,000	158,131,000	158,131,000	158,131,000	158,13
Total assets	899,970,000	834,165,000	778,146,000	730,034,000	708,47
Senior credit facility	190,389,000	190,389,000	190,389,000	190,389,000	190,38
Net after senior credit facility	709,581,000	643,776,000	587,757,000	539,645,000	518,08
L Bonds	534,302,000	534,302,000	534,302,000	534,302,000	534,30
Net after L Bonds	$ 175,279,000	$ 109,474,000	$ 53,455,000	$ 5,343,000	$ (16,21
Impairment to L Bonds	No impairment	No impairment	No impairment	No Impairment	Impair

The table illustrates that our ability to fully satisfy amounts owing under the L Bonds would likely be impaired upon the sale of all our life insurance assets at a price equivalent to a discount rate of approximately 16.24% or higher. At December 31, 2017, the likely impairment occurred at a discount rate of approximately 15.04% or higher. The discount rates used to calculate the fair value of our portfolio were 10.45% as of both June 30, 2018 and December 31, 2017.

The table does not include any allowance for transactional fees and expenses associated with a portfolio sale (which expenses and fees could be substantial) and is provided to demonstrate how various discount rates used to value our portfolio could affect our ability to satisfy amounts owing under our debt obligations in light of our senior secured lender’s right to priority payments. This table also does not include the yield maintenance fee, which could be substantial, we are required to pay in certain circumstances under our senior credit facility with LNV Corporation. You should read the above table in conjunction with the information contained in other sections of this report, including our discussion of discount rates included under the “Critical Accounting Policies — Fair Value Components — Discount Rate” caption above.

Amendment of Credit Facility

Effective September 27, 2017, DLP IV entered into an Amended and Restated Loan and Security Agreement with LNV Corporation, as lender, and CLMG Corp., as the administrative agent on behalf of the lenders under the agreement. The Loan and Security Agreement makes available a total of up to $300,000,000 in credit to DLP IV with a maturity date of September 27, 2029. Additional advances are available under the Amended and Restated Loan Agreement at the LIBOR rate as defined in the Amended and Restated Loan Agreement. Advances are available as the result of additional borrowing base capacity, created as the premiums and servicing costs of pledged life insurance policies become due and by additional policy pledges to the facility, if any. Interest will accrue on amounts borrowed under the Amended and Restated Loan Agreement at an annual interest rate, determined as of each date of borrowing or quarterly if there is no borrowing, equal to (A) the greater of 12-month LIBOR or the federal funds rate (as defined in the agreement) plus one-half of one percent per annum, plus (B) 7.50% per annum. The effective rate at June 30, 2018 was 10.19%. Interest payments are made on a quarterly basis.

Under the Amended and Restated Loan and Security Agreement, DLP IV has granted the administrative agent, for the benefit of the lenders under the agreement, a security interest in all of DLP IV's assets. As with prior collateral arrangements relating to the senior secured debt of GWG Holdings and its subsidiaries (on a consolidated basis), GWG Holdings' equity ownership in DLP IV continues to serve as collateral for the obligations of GWG Holdings under the L Bonds (although the life insurance assets owned by DLP IV will not themselves serve directly as collateral for those obligations).

Cash Flows

The payment of premiums and servicing costs to maintain life insurance policies represents our most significant requirement for cash disbursement. When a policy is purchased, we are able to calculate the minimum premium payments required to maintain the policy in-force. Over time as the insured ages, premium payments will increase. Nevertheless, the probability we will actually be required to pay the premiums decreases as mortality becomes more likely. These scheduled premiums and associated probabilities are factored into our expected internal rate of return and cash-flow modeling. Beyond premiums, we incur policy servicing costs, including annual trustee, policy administration and tracking costs. Additionally, we incur financing costs, including principal, interest and dividends. Both policy servicing costs and financing costs are excluded from our internal rate of return calculations. Until we receive a sufficient amount of proceeds from the policy benefits, we intend to pay these costs from our senior credit facility with LNV Corporation, when permitted, and through the issuance of L Bonds.

The amount of payments for anticipated premiums, including the requirement by our senior credit facility with LNV Corporation to maintain a two month cost-of-insurance threshold within each policy cash value account, and servicing costs that we will be required to make over the next five years to maintain our current portfolio, assuming no mortalities, is set forth in the table below.

Years Ending December 31,	Premiums	Servicing	Premiums and Servicing Fees
Six months ending December 31, 2018	$ 27,358,000	$ 677,000	$ 28,035,000
2019	63,323,000	1,355,000	64,678,000
2020	73,758,000	1,355,000	75,113,000
2021	84,700,000	1,355,000	86,055,000
2022	95,964,000	1,355,000	97,319,000
2023	107,289,000	1,355,000	108,644,000
	$ 452,392,000	$ 7,452,000	$ 459,844,000

Our anticipated premium expenses are subject to the risk of increased cost-of-insurance charges (i.e., “COI” or premium charges) for the life insurance policies we own. On May 9, 2018 we learned that John Hancock Life Insurance Company (“John Hancock”) had begun notifying policy owners of COI increases on Performance UL policies issued between 2003 and 2010. We identified and received notice on 20 such policies in our portfolio, representing $59.6 million in total face value, and have completed our analysis and incorporation of increased cost of insurance charges into our portfolio as of June 30, 2018 reducing the fair value by approximately $2.9 million. In addition, we received notice and recognized COI increases on four policies issued by the Transamerica Life Insurance Company (“Transamerica”) as of June 30, 2018 with a total face value of $9.2 million and a reduction in fair value of $1.4 million.

We have no known pending cost-of-insurance increases on any policies in our portfolio, but we are aware that cost-of-insurance increases have become more prevalent in the industry. Thus, we may see additional insurers implementing cost-of-insurance increases in the future.

For the quarter-end dates set forth below, the following table illustrates the total amount of face value of policy benefits owned, and the trailing 12 months of life insurance policy benefits realized and premiums paid on our portfolio. The trailing 12-month benefits/premium coverage ratio indicates the ratio of policy benefits realized to premiums paid over the trailing 12-month period from our portfolio of life insurance policies.

Quarter End Date	**Portfolio Face Amount ($)**	**12-Month Trailing Benefits Realized ($)**	**12-Month Trailing Premiums Paid ($)**	**12-Month Trailing Benefits/Premium Coverage Ratio**	
March 31, 2015	754,942,000	46,675,000	23,786,000	196.2	%
June 30, 2015	806,274,000	47,125,000	24,348,000	193.5	%
September 30, 2015	878,882,000	44,482,000	25,313,000	175.7	%
December 31, 2015	944,844,000	31,232,000	26,650,000	117.2	%
March 31, 2016	1,027,821,000	21,845,000	28,771,000	75.9	%
June 30, 2016	1,154,798,000	30,924,000	31,891,000	97.0	%
September 30, 2016	1,272,078,000	35,867,000	37,055,000	96.8	%
December 31, 2016	1,361,675,000	48,452,000	40,239,000	120.4	%
March 31, 2017	1,447,558,000	48,189,000	42,753,000	112.7	%
June 30, 2017	1,525,363,000	49,295,000	45,414,000	108.5	%
September 30, 2017	1,622,627,000	53,742,000	46,559,000	115.4	%
December 31, 2017	1,676,148,000	64,719,000	52,263,000	123.8	%
March 31, 2018	1,758,066,000	60,248,000	53,169,000	113.3	%
June 30, 2018	1,849,079,000	76,936,000	53,886,000	142.8	%

We believe that the portfolio cash flow results set forth above are consistent with our general investment thesis: that the life insurance policy benefits we receive will continue to increase over time in relation to the premiums we are required to pay on the remaining polices in the portfolio. Nevertheless, we expect that our portfolio cash flow on a period-to-period basis will remain inconsistent until such time as we achieve our goal of acquiring a larger, more diversified portfolio of life insurance policies.

Inflation

Changes in inflation do not necessarily correlate with changes in interest rates. We presently do not foresee any material impact of inflation on our results of operations in the periods presented in our condensed consolidated financial statements.

Off-Balance Sheet Arrangements

We are party to an office lease with U.S. Bank National Association as the landlord. On September 1, 2015, we entered into an amendment that expanded the leased space to 17,687 square feet and extended the term through October 2025 (see Note 17 to the condensed consolidated financial statements).

Credit Risk

We review the credit risk associated with our portfolio of life insurance policies when estimating its fair value. In evaluating the policies' credit risk, we consider insurance company solvency, credit risk indicators, economic conditions, ongoing credit evaluations, and company positions. We attempt to manage our credit risk related to life insurance policies typically by purchasing policies issued only from companies with an investment-grade credit rating by either Standard & Poor's, Moody's, or A.M. Best Company. As of June 30, 2018, 95.3% of our life insurance policies, by face value benefits, were issued by companies that maintained an investment-grade rating (BBB or better) by Standard & Poor's.

Interest Rate Risk

Our senior credit facility with LNV Corporation is floating-rate financing. In addition, our ability to offer interest and dividend rates that attract capital (including in our continuous offering of L Bonds) is generally impacted by prevailing interest rates. Furthermore, while our L Bond offering provides us with fixed-rate debt financing, our Debt Coverage Ratio is calculated in relation to the interest rate on all of our debt financing. Therefore, fluctuations in interest rates impact our business by increasing our borrowing costs and reducing availability under our debt financing arrangements. We calculate our portfolio earnings based upon the spread generated between the return on our life insurance portfolio and the total cost of our financing. As a result, increases in interest rates will reduce the earnings we expect to achieve from our investments in life insurance policies.

Non-GAAP Financial Measures

Non-GAAP financial measures disclosed by our management are provided as additional information to investors in order to provide an alternative method for assessing our financial condition and operating results. These non-GAAP financial measures are not in accordance with GAAP and may be different from non-GAAP measures used by other companies, including other companies within our industry. This presentation of non-GAAP financial information should not be considered in isolation or as a substitute for comparable amounts prepared in accordance with GAAP. See our condensed consolidated financial statements and our financial statements contained herein.

We use non-GAAP financial measures for management's assessment of our financial condition and operating results without regard to GAAP fair value standards. The application of current GAAP fair value standards, especially during a period of significant growth of our portfolio and our Company may result in current period GAAP financial results that may not be reflective of our long-term earnings potential. Management believes our non-GAAP financial measures provide investors an alternative view of the long-term earnings potential without regard to the volatility in

GAAP financial results that can, and does, occur during this stage of our portfolio and company growth.

Therefore, in contrast to a GAAP fair valuation, we seek to measure the accrual of the actuarial gain occurring within the portfolio of life insurance policies at our expected internal rate of return (exclusive of future interest costs) based on statistical mortality probabilities for the insureds (using primarily the insured's age, sex, health and smoking status). The expected internal rate of return tracks actuarial gain occurring within the policies according to a mortality table as the insureds' age increases. By comparing the actuarial gain accruing within our portfolio of life insurance policies against our adjusted operating costs during the same period, we can estimate the overall financial performance of our business without regard to fair value volatility. We use this information to balance our life insurance policy purchasing and manage our capital structure, including the issuance of debt and utilization of our other sources of capital, and to monitor our compliance with borrowing covenants. We believe that these non-GAAP financial measures provide information that is useful for investors to understand period-over-period operating results separate and apart from fair value items that can have a disproportionately positive or negative impact on GAAP results in any particular reporting period.

In addition, the Indenture governing our L Bonds requires us to maintain a "Debt Coverage Ratio" designed to provide reasonable assurance that the buy and hold value of our life insurance portfolio plus the value of all our other assets exceed our total outstanding indebtedness. This ratio is calculated using non-GAAP measures in the method described below, again without regard to GAAP-based fair value measures.

Non-GAAP Investment Cost Basis	As of June 30, 2018	As of December 31, 2017
GAAP fair value	$ 726,063,000	$ 650,527,000
Unrealized fair value gain (1)	(362,605,000)	(331,386,000)
Adjusted cost basis increase (2)	365,886,000	325,100,000
Non-GAAP investment cost basis (3)	$ 729,344,000	$ 644,241,000

(1) This represents the reversal of cumulative unrealized GAAP fair value gain of life insurance policies.
(2) Adjusted cost basis is increased to interest, premiums and servicing fees that are expensed under GAAP.
(3) This is the non-GAAP investment cost basis in life insurance policies from which our expected internal rate of return is calculated.

Excess Spread. Management uses the "total excess spread" to gauge expected profitability of our investments. The Expected IRR of our portfolio is based upon future cash flow forecasts derived from a probabilistic analysis of our policy benefits received and policy premiums paid in relation to our non-GAAP investment cost basis.

	As of June 30, 2018	As of December 31, 2017
Expected IRR (1)	10.19 %	10.48 %
Total weighted-average interest rate on indebtedness for borrowed money (2)	7.95 %	7.95 %
Total excess spread (3)	2.24 %	2.53 %

(1) Excludes IRR realized on matured life insurance policies — which are substantial.
(2) Represents the weighted-average interest rate paid on all interest-bearing indebtedness as of the measurement date, determined as follows:

Indebtedness	As of June 30,	As of December 31,

	2018	2017
Senior credit facility with LNV Corporation	$ 190,389,000	$ 222,525,000
L Bonds	534,302,000	461,427,000
Total	$ 724,691,000	$ 683,952,000
Interest Rates on Indebtedness		
Senior credit facility with LNV Corporation	10.19 %	9.31 %
L Bonds	7.15 %	7.29 %
Weighted-average interest rates paid on indebtedness	7.95 %	7.95 %

(3) Calculated as the Expected IRR minus the weighted-average interest rate on interest-bearing indebtedness(2).

Adjusted Non-GAAP Net Income. We calculate our adjusted non-GAAP net income by recognizing the actuarial gain accruing within our life insurance portfolio at the Expected IRR against our adjusted cost basis without regard to fair value. We net this actuarial gain against its adjusted costs during the same period to calculate our net income on an adjusted non-GAAP basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
GAAP net income (loss) attributable to common shareholders	$ (4,396,000)	$ (7,725,000)	$ (17,279,000)	$ (9,638,000)
Unrealized fair value gain (1)	(14,573,000)	(15,235,000)	(31,219,000)	(29,119,000)
Adjusted cost basis increase (2)	27,453,000	22,739,000	53,450,000	44,461,000
Accrual of unrealized actuarial gain (3)	4,973,000	7,505,000	11,575,000	12,415,000
Total adjusted non-GAAP net income (loss)	$ 13,457,000	$ 7,284,000	$ 16,527,000	$ 18,119,000

(1) Reversal of unrealized GAAP fair value gain on life insurance policies for current period.
(2) Adjusted cost basis is increased to include interest, premiums and servicing fees that are expensed under GAAP.
(3) Accrual of actuarial gain at Expected IRR.

Adjusted Non-GAAP Tangible Net Worth. We calculate our adjusted non-GAAP tangible net worth by recognizing the actuarial gain accruing within our life insurance policies at the Expected IRR of the policies we own without regard to fair value. We net this actuarial gain against our costs during the same period to calculate our adjusted tangible net worth on a non-GAAP basis.

	As of June 30, 2018	As of December 31, 2017
GAAP net worth	$ 172,022,000	$ 133,672,000
Less intangible assets (1)	(33,133,000)	(30,354,000)
GAAP tangible net worth	138,889,000	103,318,000
Unrealized fair value gain (2)	(362,605,000)	(331,386,000)
Adjusted cost basis increase (3)	365,886,000	325,100,000
Accrual of unrealized actuarial gain (4)	169,816,000	158,241,000
Total adjusted non-GAAP tangible net worth	$ 311,986,000	$ 255,273,000

(1) Unamortized portion of deferred financing costs and pre-paid insurance.
(2) Reversal of cumulative unrealized GAAP fair value gain or loss of life insurance policies.
(3) Adjusted cost basis is increased to include interest, premiums and servicing fees that are expensed under GAAP.
(4) Accrual of cumulative actuarial gain at Expected IRR.

Debt Coverage Ratio. Our L Bonds borrowing covenants require us to maintain a Debt Coverage Ratio of less than 90%. The Debt Coverage Ratio is calculated by dividing the sum of our total interest-bearing indebtedness by the sum of our cash, cash equivalents, and policy benefits receivable by the net present value of the life insurance portfolio, and, without duplication, the value of all of our other assets as reflected on our most recently available balance sheet prepared in accordance with GAAP.

	As of June 30, 2018	As of December 31, 2017
Life insurance portfolio policy benefits	$ 1,849,079,000	$ 1,676,148,000
Discount rate of future cash flows (1)	7.95 %(1)	7.95 %(1)
Net present value of life insurance portfolio policy benefits	$ 822,029,000	$ 737,625,000
Cash and cash equivalents	131,096,000	142,771,000
Life insurance policy benefits receivable	27,035,000	16,659,000
Other assets (2)	10,841,000	-
Total Coverage	$ 991,001,000	$ 897,055,000
Senior credit facility	$ 190,389,000	$ 222,525,000

L Bonds	534,302,000		461,427,000	
Total Indebtedness	$ 724,691,000		$ 683,952,000	
Debt Coverage Ratio	73.13	%	76.24	%

(1) Weighted-average interest rate paid on indebtedness.

(2) The Total Coverage amount as of June 30, 2018 includes “Other assets” as defined in the Amendment No.1 to Amended and Restated Indenture with Bank of Utah, dated March 27, 2018.

As of June 30, 2018 and December 31, 2017, we were in compliance with the Debt Coverage Ratio.

We have in the past reported non-GAAP expected portfolio internal rate of return at purchase among our other non-GAAP financial measures. We have determined, however, to cease reporting this measure primarily because we do not believe that it is sufficiently additive to our existing non-GAAP measures in aiding users of our financial statements and disclosures to measure and evaluate our financial condition or operating results.

Portfolio Information

Our portfolio of life insurance policies, owned by our subsidiaries as of June 30, 2018, is summarized below:

Life Insurance Portfolio Summary

Total portfolio face value of policy benefits	$ 1,849,079,000	
Average face value per policy	$ 1,831,000	
Average face value per insured life	$ 2,052,000	
Average age of insured (yrs.)*	81.9	
Average life expectancy estimate (yrs.)*	6.8	
Total number of policies	1,010	
Number of unique lives	901	
Demographics	76% Males; 24% Females	
Number of smokers	41	
Largest policy as % of total portfolio face value	0.72	%
Average policy as % of total portfolio	0.10	%
Average annual premium as % of face value	3.11	%

* Averages presented in the table are weighted averages.

Our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of June 30, 2018, organized by the insured's current age and the associated number of policies and policy benefits, is summarized below:

Distribution of Policies and Policy Benefits by Current Age of Insured

				Percentage of Total		
Min Age	Max Age	Number of Policies	Policy Benefits	Number of Policies	Policy Benefits	Wtd. Avg. LE (yrs.)
95	100	12	$ 16,954,000	1.2 %	0.9 %	1.4

90	94	111	209,514,000	11.0	%	11.3	%	2.8
85	89	213	446,986,000	21.1	%	24.2	%	4.7
80	84	213	453,283,000	21.1	%	24.5	%	6.5
75	79	205	368,928,000	20.3	%	20.0	%	8.9
70	74	180	263,198,000	17.8	%	14.2	%	10.6
60	69	76	90,216,000	7.5	%	4.9	%	10.1
Total		1,010	$ 1,849,079,000	100.0	%	100.0	%	6.8

Our portfolio of life insurance policies, owned by our subsidiaries as of June 30, 2018, organized by the insured's estimated life expectancy and associated policy benefits, is summarized below:

Distribution of Policies by Current Life Expectancies (LE) of Insured

Min LE (Months)	Max LE (Months)	Number of Policies	Policy Benefits	Percentage of Total Number of Policies		Policy Benefits	
1	47	268	$ 442,256,000	26.5	%	23.9	%
48	71	198	361,295,000	19.6	%	19.5	%
72	95	207	391,580,000	20.5	%	21.2	%
96	119	166	329,115,000	16.4	%	17.8	%
120	143	97	150,815,000	9.6	%	8.2	%
144	179	60	130,376,000	6.0	%	7.0	%
180	228	14	43,642,000	1.4	%	2.4	%
Total		1,010	$ 1,849,079,000	100.0	%	$ 100.0	%

B-46

We track concentrations of pre-existing medical conditions among insured individuals within our portfolio based on information contained in life expectancy reports including the underwriter's designation of primary impairment. We track these medical conditions within the following ten primary categories: (1) cancer, (2) cardiovascular, (3) cerebrovascular, (4) dementia, (5) diabetes, (6) multiple conditions, (7) neurological disorders, (8) respiratory disease, (9) other, and (10) no diseases. Currently, the primary disease categories within our portfolio that represent a concentration of over 10% are multiple conditions, cardiovascular, and other which constitute 26.7%, 21.5%, and 12.7%, respectively, of the face amount of insured benefits of our portfolio as of June 30, 2018.

The yield to maturity on bonds issued by life insurance carriers reflects, among other things, the credit risk (risk of default) of such insurance carrier. We follow the yields on certain publicly traded life insurance company bonds because this information is part of the data we consider when valuing our portfolio of life insurance policies for our financial statements.

The average yield to maturity of publicly traded life insurance company bonds data we consider when valuing our portfolio of life insurance policies was 4.11% as of June 30, 2018. We believe that this reflects, in part, the financial market's judgment that credit risk is low with regard to these carriers' financial obligations. It should be noted that the obligations of life insurance carriers to pay life insurance policy benefits ranks senior to all of their other financial obligations, such as the aforementioned senior bonds they issue.

As of June 30, 2018, approximately 95.3% of the face value of policy benefits in our life insurance portfolio were issued by insurance companies with investment-grade credit ratings from Standard & Poor's. Our ten largest life insurance company credit exposures and the Standard & Poor's credit rating of their respective financial strength and claims-paying ability is set forth below:

Distribution of Policy Benefits by Top 10 Insurance Companies

Rank	Policy Benefits	**Percentage of Policy Benefit Amount**		Insurance Company	Ins. Co. S&P Rating
1	$ 271,936,000	14.7	%	John Hancock Life Insurance Company (U.S.A.)	AA-
2	210,626,000	11.4	%	AXA Equitable Life Insurance Company	A+
3	206,917,000	11.2	%	Lincoln National Life Insurance Company	AA-
4	171,627,000	9.3	%	Transamerica Life Insurance Company	AA-

5	120,081,000	6.5	%	Metropolitan Life Insurance Company	AA-
6	90,168,000	4.9	%	American General Life Insurance Company	A+
7	61,737,000	3.3	%	Pacific Life Insurance Company	AA-
8	60,893,000	3.3	%	Massachusetts Mutual Life Insurance Company	AA+
9	54,632,000	2.9	%	Reliastar Life Insurance Company	A
10	53,202,000	2.9	%	Security Life of Denver Insurance Company	A
	$ 1,301,819,000	70.4	%		

Secondary Life Insurance — Portfolio Return Modeling

The goal of our portfolio of life insurance assets is to earn superior risk-adjusted returns. At any time, we calculate our returns from our life insurance assets based upon (i) our historical results; and (ii) the future cash flows we expect to realize from our statistical forecasts. To forecast our expected future cash flows and returns, we use the probabilistic method of analysis. The expected internal rate of return of our portfolio is based upon future cash flow forecasts derived from a probabilistic analysis of policy benefits received and policy premiums paid in relation to our non-GAAP investment cost basis. As of June 30, 2018, the expected internal rate of return on our portfolio of life insurance assets was 10.19% based on our portfolio benefits of $1.85 billion and our non-GAAP investment cost basis of $729 million (including purchase price, premiums paid, and financing costs incurred to date). This calculation excludes returns realized from our matured policy benefits which are substantial.

We seek to further enhance our understanding of our expected future cash flow and returns by using a stochastic analysis, sometimes referred to as a "Monte Carlo simulation," to provide us with a greater understanding of the variability of our projections. The stochastic analysis we perform provides internal rates of return calculations for different statistical confidence intervals. The results of our stochastic analysis, in which we run 10,000 random mortality scenarios, demonstrates that the scenario ranking at the 50^{th} percentile of all 10,000 results generates an internal rate of return ("IRR") of 10.14%, which is very near to our expected IRR ("Expected IRR") of our portfolio of 10.19%. Our Expected IRR is based upon future cash flow forecasts derived from a probabilistic analysis of our policy benefits received and policy premiums paid in relation to our non-GAAP investment cost basis. The stochastic analysis results also indicate that our portfolio is expected under this hypothetical analysis to generate an internal rate of return of 9.69% or better in 75% of all generated scenarios; and an internal rate of return of 9.30% or better in 90% of all generated scenarios. As the portfolio continues to grow in size and diversity, all else equal, the hypothetical scenario results cluster closer to each other around our median, or 50^{th} percentile, internal rate of return expectation, thereby lowering future cash flow volatility and potentially justifying our use of lower discount rates to value our portfolio as size and diversification continue to increase over time.

The complete detail of our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of June 30, 2018, organized by the current age of the insured and the associated policy benefits, sex, estimated life expectancy, issuing insurance carrier, and the credit rating of the issuing insurance carrier, is set in Exhibit 99.2 to this report.

Annex C

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED DATA

The following tables present the unaudited pro forma condensed consolidated data of GWG, after giving effect to the Transaction (the Initial Transfer and Final Closing) assuming it had occurred on January 1, 2017. This unaudited pro forma condensed consolidated data was prepared using the equity method of accounting. GWG has determined that the equity method is appropriate because GWG's ownership of Beneficient exceeds the applicable minimum threshold but GWG does not meet the control provision requiring consolidation (in each case, as determined under applicable accounting principles). Under this method, GWG will initially record, at cost, its investment in Beneficient as an asset. Thereafter, GWG's proportionate share of Beneficient's earnings attributable to common unitholders, and any distributions therefrom, will be reflected in the carrying value of GWG's investment in Beneficient. The unaudited pro forma condensed consolidated data is based on the historical consolidated financial statements of GWG after giving effect to the completion of the Transaction and the assumptions and adjustments described in the notes to the unaudited pro forma condensed consolidated data below. The unaudited pro forma adjustments, which GWG believes are reasonable under the circumstances, have been made solely for the purpose of providing the unaudited pro forma condensed consolidated data. The unaudited pro forma adjustments are preliminary and based upon available information and certain assumptions described in the notes to the unaudited pro forma condensed consolidated data.

The information presented below should be read in conjunction with the historical consolidated financial statements and related notes of GWG appearing elsewhere in this Information Statement. The unaudited pro forma condensed consolidated data is presented solely for informational purposes and is not necessarily indicative of the financial position or results of operations that might have been achieved had the Transaction been completed as of January 1, 2017, nor is it meant to be indicative of any anticipated future financial position or results of operations that GWG will experience after the Transaction.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2018 Consolidated GWG Holdings, Inc. (unaudited)	Pro Forma Adjustments Initial Transfer - Beneficient		Pro Forma Adjustments Final Closing - Beneficient		Pro Forma Consolidated GWG Holdings, Inc.
ASSETS						
Cash and cash equivalents	$ 124,444,804	$ 50,000,000	[b]	$ -		$ 174,444,804
Restricted cash	6,651,309	-		-		6,651,309
Investment in life insurance policies, at fair value	726,063,244	-		-		726,063,244
Life insurance policy benefits receivable	27,035,000	-		-		27,035,000
Investment in Beneficient	-	40,323,487	[a]	348,722,006	[c]	389,045,493
Commercial Loan receivable from Beneficient	-	200,000,000	[a]		[d]	200,000,000
Exchangeable Note receivable from Beneficient	-	162,911,379	[a]	(162,911,379)	[c]	-
Other assets	10,841,567	-		-		10,841,567
TOTAL ASSETS	$ 895,035,924	$ 453,234,866		$ 185,810,627		$ 1,534,081,417
LIABILITIES AND STOCKHOLDERS' EQUITY						
LIABILITIES						
Senior credit facility with LNV Corporation	$ 180,630,553	$ -		$ -		$ 180,630,553
L Bonds	518,788,942	-		-		518,788,942
Seller Trust L Bonds	-	403,234,866	[a]	-		403,234,866
Accounts payable	2,626,283	-		-		2,626,283
Interest and dividends payable	16,936,725	-		-		16,936,725
Other accrued expenses	4,031,070	-		-		4,031,070
TOTAL LIABILITIES	723,013,573	403,234,866		-		1,126,248,439
STOCKHOLDERS' EQUITY:						
Redeemable Preferred Stock	88,997,278	-		-		88,997,278
Series 2 Redeemable Preferred Stock	131,704,423	-		-		131,704,423
Series B Convertible Preferred Stock	-	50,000,000	[b]	(50,000,000)	[b]	-
	5,813	-		29,194	[b],[c]	35,007

Common stock (par value $0.001)					
Additional paid-in capital	-	-	235,781,433	[b],[c]	235,781,433
Accumulated deficit	(48,685,163)	-	-		(48,685,163)
TOTAL STOCKHOLDERS' EQUITY	172,022,351	50,000,000	185,810,627		407,832,978
TOTAL LIABILITIES & EQUITY	$ 895,035,924	$ 453,234,866	$ 185,810,627		$ 1,534,081,417

Notes:

[a] Reflects GWG issuance of $403.2 million of Seller Trust L Bonds in exchange for 4,032,349 MLP Units in Beneficient at $10.00/unit, a $200.0 million Commercial Loan receivable and an $162.9 million Exchangeable Note receivable from Beneficient.

[b] Cash received of $50,000,000 for issuance of 5,000,000 shares of GWG's Series B Convertible Preferred Stock at $10.00 per share. The Series B shares convert into 5,000,000 shares of GWG common stock at $10.00 per share at the Final Closing.

[c] Reflects GWG issuance of 24,194,092 shares at $10.00 per share and the satisfaction of $162.9 million Exchangeable Note in exchange for 40,485,230 MLP Units in Beneficient at $10.00/unit. Additionally, Beneficient will issue to GWG an amount of securities or other instruments, containing the same rights, preferences and privileges as the NPC-A limited partnership interests of Beneficient Company Holdings, L.P., an affiliate of Beneficient ("Beneficient Holdings"), equivalent to seven percent (7%) of the total NPC-A limited partnership interests attributable to certain of Beneficient Holdings' founders, subject to certain adjustments. This instrument has not yet been issued; the amount of the instrument assumed for purposes of this filing is an estimated initial amount and is subject to pro rata dilution with certain founders that could result in material changes to the initial amount. As the GWG closing stock price on June 29, 2018 (the last business day in June) was $7.68/share, this price was used to determine related Additional paid-in capital on issuance of GWG stock (i.e. vs the $10.00/share transaction price) with the offset reflected in a lower beginning basis in the equity method investment in Beneficient.

[d] Beneficient may, at its option, add interest accrued on the Exchangeable Note and the Commercial Loan at the time of the Final Closing to the outstanding principal balance under the Commercial Loan Agreement at the Final Closing Date in lieu of payment in cash.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	Six Months Ended June 30, 2018			
	Consolidated GWG Holdings, Inc.	**Effects of Transaction**		**Pro Forma Consolidated GWG Holdings, Inc.**
REVENUE				
Gain on life insurance policies, net	$ 37,208,495	$ -		$ 37,208,495
Interest income – Commercial Loan	-	5,000,000	1b	5,000,000
Interest income – Exchangeable Note	-	-	1c	-
Interest and other income	1,648,125	-		1,648,125
TOTAL REVENUE	38,856,620	5,000,000		43,856,620